Summit Resources Limited
1997 Annual Report

Corporate Profile

Summit Resources Limited is a public exploration and production company based in Calgary, Alberta, and has operated for a quarter of a century in the oil and gas industry.

The Company's primary objective is to create long-term shareholder value by exploring for, acquiring and developing high-quality oil and gas assets.

In 1997, Summit's operations strategy resulted in the successful acquisition of properties at competitive prices and in the selective drilling of high-quality prospects.

This strategy will continue in 1998 as Summit pursues opportunities in the western Canadian Sedimentary Basin and selected basins in the United States.

The common shares of Summit Resources are listed for trading on The Toronto Stock Exchange under the symbol SUI. At December 31, 1997, 33.3 million shares were outstanding.

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ANNUAL GENERAL MEETING

of shareholders of Summit Resources Limited will be held on May 19,1998 at 3:00 pm in the Mayfair Room of the Westin Hotel, Calgary, Alberta. Shareholders who are unable to attend are requested to complete and return their Form of Proxy to Montreal Trust located at 530 Eighth Avenue S.W., Calgary, Alberta T2P 3S8.

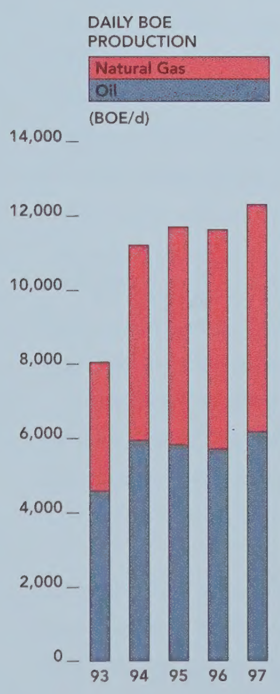
1997 Highlights

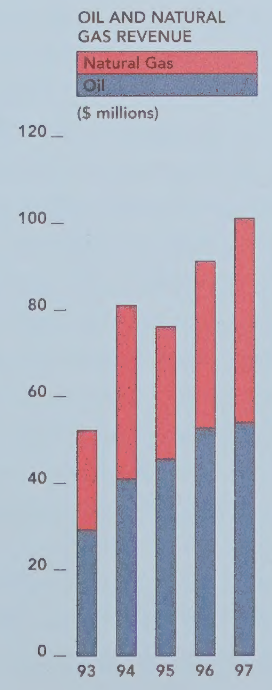
FINANCIAL

($ thousands except share and per share amounts)	1997	1996	% Change
Petroleum and Natural Gas Revenue	100,853	91,140	11
Cash Flow from Operations	50,817	50,006	2
Per Share	1.51	1.46	3
Net Earnings (Loss)	(30,944)	7,451	(515)
Per Share	(0.92)	0.22	(518)
Capital Expenditures (net of dispositions)	88,380	67,597	31
Long-term Debt (net of working capital)	129,756	65,893	97
Shareholders' Equity	150,367	190,382	(21)
Common Shares Outstanding (000's)			
At December 31	33,328	34,370	(3)
Weighted Average	33,631	34,244	(2)

OPERATING

	1997	1996	% Change
Crude Oil and NGLs			
Production - bbls/d	6,145	5,707	8
Price - $/bbl	23.89	25.49	(6)
Natural Gas			
Production - MMcf/d	62.2	60.1	4
Price - $/Mcf	2.06	1.70	21
Total Production (BOE/d)	12,362	11,713	6





President's Message

A RECORD YEAR ON MANY FRONTS

In most respects, 1997 was a record year for Summit both financially and operationally. Oil and gas revenues of $101 million and cash flow of $51 million set new records for the Company, while a 53 per cent increase in full-cycle exploration expenditures to $64 million resulted in a 142 per cent increase in drilling activity and a 22 per cent increase in the Company's inventory of undeveloped lands. An active property acquisition program combined with dispositions of non-core assets resulted in a net investment of $24 million bolstering the Company's inventory of development projects. In addition, Summit completed a rights offering to its shareholders which entitled participants to ownership in a portion of the Company's interests in the Alliance Pipeline projects.

BALANCED OIL AND GAS SALES GENERATE RECORD REVENUE AND CASH FLOW

Summit's oil and gas sales increased to $101 million in 1997 with $54 million attributable to oil and $47 million to natural gas. Cash flow generated from Summit's 1997 operations totaled $51 million, or $1.51 per share. However, a $34.5 million write-down on the Company's U.S. operating centre resulted in a net loss in 1997 of $31 million.

Monthly average crude oil prices fluctuated widely during the year from a high of U.S. $25.18 WTI in January to a low of U.S. $18.32 WTI in December. The Canadian oil industry also experienced a significant widening in the pricing differential between light and heavy oils which dramatically impacted netbacks for heavy oil. Summit was sheltered from the widening differential because its blend of primarily lighter crude oils averages 36° API and, therefore, resulted in an average price of Cdn. $23.89 per barrel. Netbacks of $13.71 per barrel were impacted by higher operating costs for production acquired in the U.S. and facilities constraints at Mirage, Alberta. In both cases, action has been taken to reduce crude oil operating costs which averaged $5.55 per barrel in 1997. Summit's oil and NGL production averaged 6,145 barrels per day in 1997, up from 5,707 barrels per day the previous year.

Summit's blend of natural gas contracts, combined with higher BTU content gas, continues to place the Company in the top pricing quartile, with 1997 natural gas prices averaging $2.06 per thousand cubic feet. Natural gas production averaged 62.2 million cubic feet per day for the year. One-third of production was derived from properties in British Columbia and two-thirds from properties in Alberta. Operating costs averaged $0.46 per thousand cubic feet, resulting in 1997 natural gas netbacks of $1.31 per thousand cubic feet.

Full-cycle exploration expenditures totaled $64 million, including $36 million invested in the drilling of 84 wells, $6 million on new production facilities and $22 million in expanding the Company's undeveloped land holdings and geophysical database which provide for future years' programs.

ACQUISITIONS AND DISPOSITIONS RESULT IN 22 PER CENT GROWTH IN LAND HOLDINGS

Overall, the Company's land holdings increased 22 per cent to 1,053,730 gross acres with an average working interest of 56 per cent. The Company increased its acreage on natural gas plays in British Columbia by 83 per cent to 157,000 gross acres, enough to require several years to evaluate through development and exploratory drilling. At the same time, Summit acquired 1,160 kilometres of 2-D seismic and 455 square kilometres of 3-D seismic during 1997 in order to evaluate and inventory defined exploration and development prospects.

Property acquisitions totaling $75 million solidified Summit's land position in two areas:

- The Company expanded its light oil reserve life index to nine years with acquisitions in the Williston Basin. With 1997 production averaging more than 1,500 barrels per day from this region, and 1998 production expected to climb to 2,500 barrels per day, Summit established a Denver operating unit with significant Williston Basin experience. This adds to the Company's ability to generate, evaluate and develop expansion opportunities from this light oil prone basin.
- The Company solidified its land holdings in the Two Creek project area with the acquisition of complementary assets at nearby Fox Creek. This acquisition increased the Company's land holdings in this area to 112,000 gross acres while increasing production levels to 20 million cubic feet per day and 250 barrels per day from this multi-zone core project area in west central Alberta.

In order to take advantage of the increased drilling opportunities on strategic assets, the Company undertook a selective disposition program of non-core assets. Mature, non-operated properties at Dunvegan, Manir and Pine Creek in Alberta were sold, as were higher operating cost properties at Hays and Sturgeon Lake, Alberta and Cantal and Viewfield, Saskatchewan.

Larry Krause, *President and Chief Executive Officer*

Mr. Krause became President and Chief Executive Officer of Summit in October 1983. From 1970 to 1983, he held progressively more senior positions in the oil and gas industry. Mr. Krause holds a Bachelor of Commerce degree and is a member and past President of the Canadian Association of Petroleum Landmen. Currently he serves as a director of Alliance Pipeline, the Canadian Association of Petroleum Producers and the University of Calgary Faculty of Management Advisory Council.

These dispositions added $51 million in sale proceeds.

An 84-well drilling program resulted in 42 oil wells (17.5 net) and 19 gas wells (13.9 net) at an average depth of 1,700 metres. Approximately 77 per cent of the drilling program was development while exploration wells accounted for the remaining total.

The Company's inventory of high-quality liquids reserves increased 17 per cent to 20.1 million barrels of proved plus probable reserves, and increased 20 per cent for proved reserves to 14.6 million barrels. Natural gas reserves were impacted by Summit's non-core property dispositions which accounted for a reduction of 45.1 billion cubic feet of proved plus probable reserves and 33.1 billion cubic feet of proved reserves. As a result, proved natural gas reserves at year end declined modestly to 147.4 billion cubic feet, while proved plus probable natural gas reserves totaled 184.7 billion cubic feet, nine per cent lower than the previous year.

ALLIANCE PIPELINE

Summit has always supported a free market system that encourages competition for pipeline projects to increase takeaway capacity for natural gas from western Canada. In 1995, Summit was one of 22 producers who supported a North American Transportation Study that resulted in the Alliance Pipeline projects, a plan to transport gas from western Canada to Chicago, Illinois. In 1997, as a 4.8 per cent owner in the Alliance Pipeline projects, Summit provided its shareholders the right to invest directly in Alliance through the purchase of units in Fort Chicago Energy Partnership L.P. ("Fort Chicago"). The Partnership was funded by way of a rights offering to shareholders that raised $50 million. Summit maintained a direct ownership position in Fort Chicago through its $17.6 million investment in 3.0 million units which are listed on the Toronto Stock Exchange. The Alliance Pipeline projects are in the final stages of gaining regulatory approval from the National Energy Board. Construction is expected to commence in late 1998.

WELL-POSITIONED FOR 1998

Early indications are that 1998 will be a difficult year for oil producers. The economic crisis in southeast Asia, combined with OPEC's increased production quotas and the addition of Iraqi production have lowered oil prices by more than 40 per cent from prices realized in early 1997. While we remain optimistic about natural gas prices due to the addition of more takeaway transportation in late 1998, we remain committed to prudent financial management which will ensure that Summit's capital expenditure program is aligned with cash flow. We will continue to adjust our capital programs to ensure that funding is prioritized to maximize Summit's financial and operating results.

Summit is well positioned to expand its natural gas production over the next several years. Close to 60 per cent of our capital program in 1998 is being allocated to increase natural gas reserves and production. This program, combined with our oil development drilling, is expected to increase 1998 production levels to the 14,000 barrels of oil equivalent per day range and generate cash flow of $45 to $48 million.

Our investment in full-cycle exploration projects, which typically require longer periods of time to fully develop, will enable us to create value for our shareholders over the long-term. In the short-term, our quality asset base of light oil and natural gas, together with our internally generated cash flow, will provide the operational momentum for Summit to achieve our short-term goals and withstand fluctuations that characterize our operating environment.

We extend our appreciation to all employees for their commitment, to our shareholders for their continuing support, and to the Board of Directors for their ongoing counsel and advice.

Submitted on behalf of the Board of Directors,

Larry B. Krause, *President and Chief Executive Officer*

Property Review

R. Glenn Dawson, ***Vice President, Exploration***

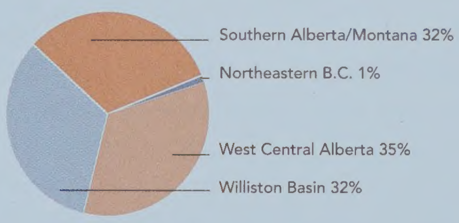
Mr. Dawson was appointed Vice President, Exploration in 1993 following five years as Manager, Exploration and prior to that, four years as a senior geologist with Summit. He holds a Bachelor of Science degree in Geology.

Summit operates in four core areas:

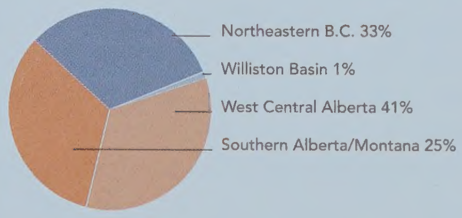
1. **Northeastern British Columbia**
2. **West Central Alberta**
3. **Southern Alberta/Montana**
4. **Williston Basin**

Operating in this manner provides balance in geography, play type, commodity mix and commodity pricing.

1997 OIL AND NGLS PRODUCTION



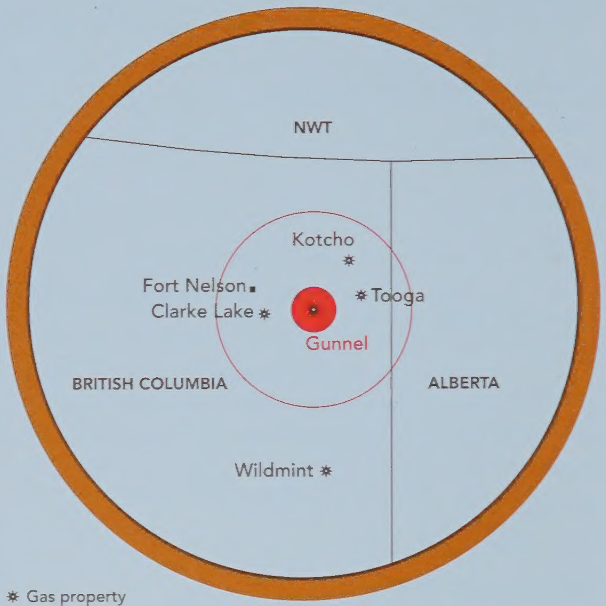
1997 NATURAL GAS PRODUCTION



In 1997, overall production increased six per cent from 11,713 to 12,362 barrels of oil equivalent per day. Liquids production increased eight per cent and natural gas production increased four per cent. The Company maintained a balanced production split between liquids and natural gas.

	Oil & Natural Gas Liquids (bbls/d)		Natural Gas (MMcf/d)	
	1997	1996	1997	1996
NORTHEASTERN BRITISH COLUMBIA				
Clarke Lake	–	–	13.5	11.9
Gunnel	1	–	3.2	1.5
Wildmint	28	28	2.7	3.6
Other	4	4	1.2	0.5
	33	32	20.6	17.5
WEST CENTRAL ALBERTA				
Calais	258	86	0.2	–
Dunvegan	67	116	3.3	3.7
Fox Creek	92	–	4.9	–
Kakwa	285	270	0.1	0.2
Mirage	664	857	3.3	4.5
Pine Creek	87	92	2.0	1.9
Sturgeon Lake - Leduc	382	350	0.2	1.9
Sunset	104	106	–	–
Two Creek	82	93	9.1	11.4
Other	111	106	2.4	0.5
	2,132	2,076	25.5	24.1
SOUTHERN ALBERTA/MONTANA				
Alberta				
Alderson	166	155	–	–
Chain/Craigmyle	85	112	11.7	14.1
Enchant	656	892	0.1	0.1
Hayter	273	336	0.1	–
Queenstown/Jumpbush	231	379	1.1	1.9
Montana				
Rabbit Hills	197	–	–	–
Red Creek	212	234	–	–
Other	160	217	2.6	2.3
	1,980	2,325	15.6	18.4
WILLISTON BASIN				
Montana				
Commertown	66	–	–	–
North Dakota				
Knutson	308		–	–
Lodgepole	427	282	0.2	–
Roosevelt/Beaver Creek	136	–	0.1	–
Saskatchewan				
Benson	93	105	–	–
Lougheed	334	328	–	–
Parkman	154	184	–	–
Other	482	375	0.2	0.1
	2,000	1,274	0.5	0.1
Total	6,145	5,707	62.2	60.1

Northeastern British Columbia



AREA OVERVIEW

Northeastern British Columbia is an area of major natural gas exploration, exploitation and development which provided 33 per cent of Summit's natural gas production in 1997. Production for the year averaged 20.6 million cubic feet per day, an increase of 18 per cent over 1996. The Company's major properties include Clarke Lake, Kotcho, Gunnel, Tooga and Wildmint. Clarke Lake and Kotcho are Slave Point natural gas plays where 3-D seismic is used to delineate the top of the Slave Point natural gas reservoir and horizontal underbalanced drilling is used to maximize production and reserve recoveries. Gunnel and Tooga are Jean Marie natural gas plays where 2-D seismic grids are used to define geological trends in the Jean Marie and horizontal underbalanced drilling is again used to produce the reserves efficiently.

Prior to 1997, Summit shot significant 2-D seismic and two large 3-D seismic programs and drilled more than 40 wells in this area. During 1997, Summit drilled six successful wells: one vertical well and two underbalanced horizontal wells at Clarke Lake and three underbalanced horizontal wells at Gunnel.

A total of eight wells are planned for 1998: two each at Clarke Lake and Gunnel, one at Kotcho and three at Tooga. Five of the eight wells will be underbalanced horizontal wells. Summit also plans to expand its compression capabilities at both Clarke Lake and Gunnel and to add a ten kilometre extension to its pipeline infrastructure at Gunnel.

NORTHEASTERN BRITISH COLUMBIA AT A GLANCE

Projects	**W.I.**
Clarke Lake (Slave Point gas)	36%
Gunnel (Jean Marie gas)	85%
Kotcho (Slave Point/Jean Marie gas)	84%
Tooga (Jean Marie gas)	50%
Wildmint (Charlie Lake/Halfway gas)	89%
Land Holdings	
Gross Developed:	27,000 acres
Gross Undeveloped:	157,250 acres
Proved + Probable Reserves	
Gas:	77.0 Bcf
Oil and NGLs:	52 Mbbls
Production - 1997	
Gas:	20.6 MMcf/d
Oil and NGLs:	33 bbls/d
Facilities	
Clarke Lake	80 MMcf/d compressor station and dehydration facilities
Gunnel	25 MMcf/d gas compression and dehydration with remote SCADA system
Kotcho	18 MMcf/d dehydration facilities

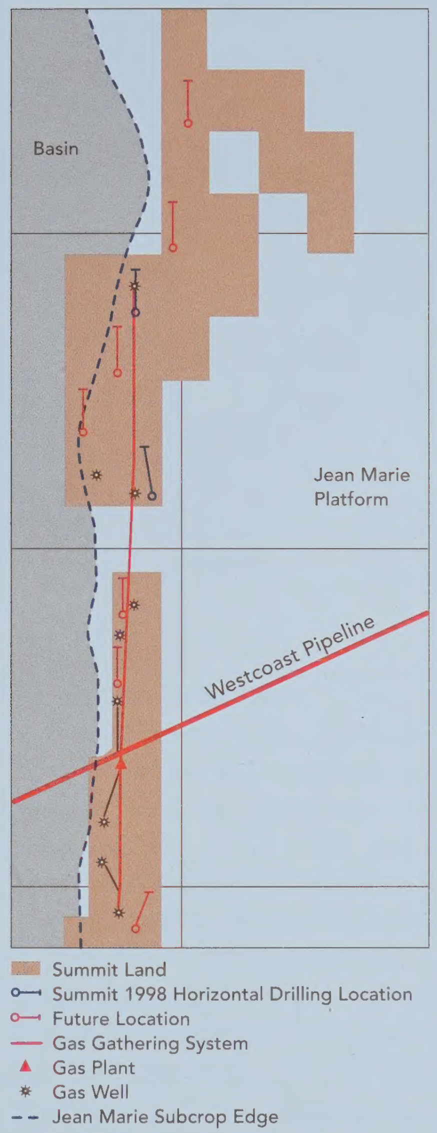
AREA FOCUS: GUNNEL

Summit acquired its original land base in the Gunnel Jean Marie gas play in 1993. Work performed prior to Summit's involvement in the Gunnel area consisted of vertical wells which were considered uneconomic because of the area's remote location, low gas prices and a generally poor understanding of the play concept. Summit developed new 2-D seismic and fractured reservoir models, and successfully delineated the pool with a vertical well program. Deliverability in the one to two million cubic feet per day range from vertical wells, lead to the development of a horizontal well model. The Jean Marie is a fractured, low permeability carbonate which requires horizontal wells to achieve higher deliverability and reserve recovery. Additional lands were acquired, increasing the Company's holdings in this area to 19,198 gross acres (17,600 net).

In 1997, Summit participated in the drilling of the first successful horizontal underbalanced gas well on the Gunnel trend and participated in two more horizontal wells which were operated by Summit for a total of 1.96 net wells. In addition, Summit added to its strategic position in the Gunnel area by acquiring new land and seismic to enhance the Company's overall position in this trend.

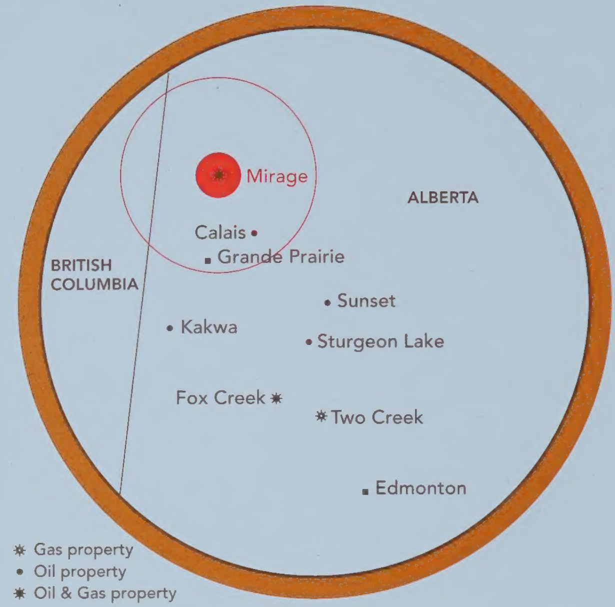
During 1997, average working interest natural gas production at Gunnel increased from 1.5 to 3.2 million cubic feet per day, with production increasing to 5.0 million cubic feet per day by year end. The Gunnel property has six to eight, 100 per cent working interest

GUNNEL



development locations defined for future drilling. Reserve recovery potential is estimated at seven to eight billion cubic feet per section. Along the Gunnel trend, Summit has defined and controlled ten additional 100 per cent working interest exploration targets which it plans to begin drilling during the 1999 drilling season. Summit's acreage on the trend is coincident with existing Slave Point gas production, which will ensure ready access to the Westcoast Energy natural gas transmission system and short tie-ins for new gas development projects.

West Central Alberta



AREA OVERVIEW

West central Alberta contributed 41 per cent of Summit's gas production and 35 per cent of Summit's oil production in 1997. Production is derived from a number of play types and zones including the Leduc, Montney, Halfway, Charlie Lake, Debolt, Gething, Notikewan and Bluesky formations. The Company's major properties in the area are Calais, Kakwa, Mirage, Sturgeon Lake, Sunset, Two Creek and Fox Creek.

Summit's historical presence in west central Alberta provides the Company with considerable knowledge and experience as well as a substantial land base and extensive waterflood, gathering, processing, dehydration, separation, compression and storage facilities. During 1997, Summit drilled 13 wells including five gas wells and one dry hole at Two Creek, one gas well at Alder, three oil wells at Kakwa and three gas wells at Dunvegan. The Company also divested itself of certain natural gas assets at Sturgeon Lake as well as its interests in the Manir, Pine Creek and Dunvegan projects. It purchased nine million cubic feet per day of natural gas production and 170 barrels per day of oil production at Fox Creek, adjacent to the Company's Two Creek project area. Overall, natural gas production increased six per cent to 25.5 million cubic feet per day in this area and liquids production increased three per cent to 2,132 barrels per day.

A 21-well drilling program, targeting gas and oil at Mirage, oil at Kakwa and gas at Two Creek, is planned for 1998.

WEST CENTRAL ALBERTA AT A GLANCE

Projects	**W.I.**
Calais (D3 oil)	65%
Fox Creek (Gething oil/Gething/Viking/Notikewan gas)	50%
Kakwa (Cardium oil)	11%
Mirage (Halfway oil and gas)	95%
Sturgeon Lake (D3 oil)	100%
Sunset (Montney oil)	37%
Two Creek (Notikewan gas, NGLs)	80%
Land Holdings	
Gross Developed:	67,000 acres
Gross Undeveloped:	200,000 acres
Proved + Probable Reserves	
Oil:	7,704 Mbbls
Gas:	70.9 Bcf
Production - 1997	
Oil & NGLs:	2,132 bbls/d
Gas:	25.5 MMcf/d
Facilities	
Mirage	5 MMcf/d sour gas plant with acid gas injection facilities
Two Creek	19 MMcf/d gas processing plant

MIRAGE

AREA FOCUS: MIRAGE

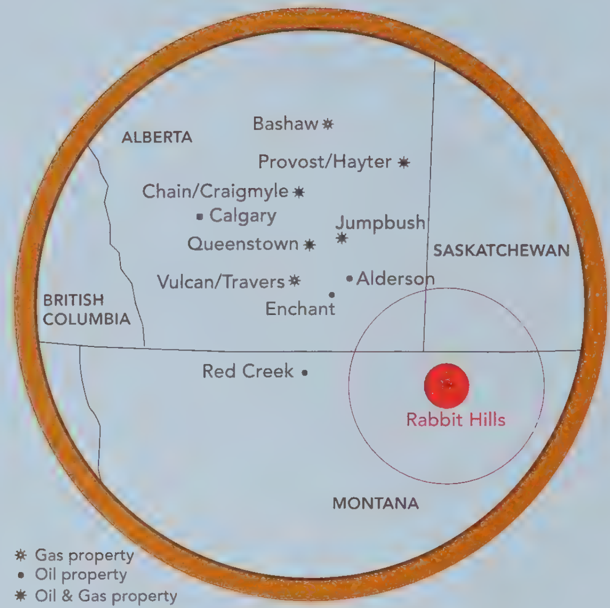
In the early 1990's, Summit acquired a 20 per cent interest in a small land base at Mirage and three wells producing 41° API oil. Having identified the area as a high impact exploration and development play, the Company proceeded to acquire additional interests, consolidating its position to a 95 per cent working interest. Having achieved control of the area, Summit expanded the play trend, resulting in the drilling of approximately 20 wells over a two-year period and implementation of a waterflood project to enhance secondary oil recovery.

The primary play at Mirage is Halfway natural gas and light oil, in sands ranging from 1,400 to 1,600 metres in depth. The Halfway sands are immediately adjacent to a mappable subcrop edge with controlled reservoir porosity and permeability. Exploration and development of the reservoir involves the drilling of geologically defined trends and seismic features associated with sand accumulations.

During 1997, Summit acquired a 3-D seismic survey to delineate existing Halfway oil pools, define new drilling targets and assist in enhancing the existing waterflood scheme. Interpretation of the seismic has indicated significant potential for additional drilling. Five wells are planned for the first quarter of 1998 with four more for the second quarter. Five to ten additional locations have been defined which may be drilled in 1998 or deferred to 1999 because of low oil prices.

During the year, Summit concluded negotiations to expand its natural gas processing capacity whereby it would dismantle its 5.0 million cubic feet per day sour gas injection facility and process its gas through a non-operated facility in the area on a fixed fee basis. This, in conjunction with the conversion of another gas line to an oil sales line, will significantly reduce operating costs on this property in 1998. Expanded natural gas processing capacity will also enable Summit to tie in existing shut-in natural gas wells for production in 1998.

Southern Alberta/Montana



AREA OVERVIEW

Summit's Southern Alberta and Northern Montana projects comprise primarily gas-prone channel plays and less common oil-prone stratigraphic plays. In 1997, this area provided 25 per cent of Summit's gas production and 32 per cent of Summit's oil production. The Company's major properties include Alderson, Chain/Craigmyle, Enchant, Hayter, Jumpbush and Queenstown in Alberta and Rabbit Hills and Red Creek in Montana. Production in 1997 averaged 15.6 million cubic feet per day of natural gas and 1,980 barrels of liquids per day.

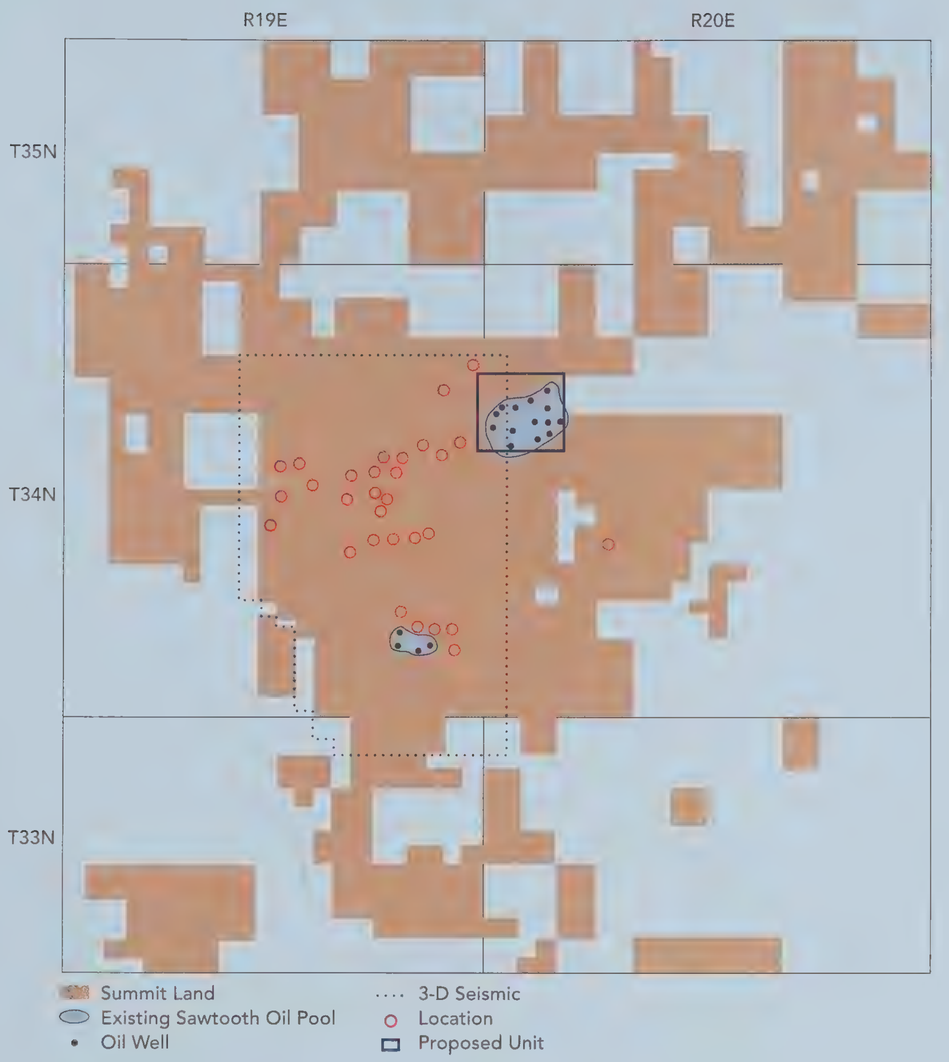
Summit's involvement in the area began in Alberta in the 1980's and has included drilling as well as installing processing and compression facilities. More recently, Summit has expanded its production base in Montana through the acquisition of eight producing wells and 350 barrels per day of oil production in the Rabbit Hills area. In 1997, Summit drilled a total of 31 wells in this core area. In Alberta, the Company drilled 14 oil wells, four gas wells and eight dry holes. Most of the activity in Alberta centred around developing oil properties at Hayter and Provost and gas properties at Chain/Craigmyle and Retlaw. In Montana, Summit drilled four oil wells at Red Creek and one dry hole at Rabbit Hills.

In 1998, Summit plans to drill up to 12 stepout oil wells at Rabbit Hills and four infill oil wells at Hayter.

SOUTHERN ALBERTA/MONTANA AT A GLANCE

Projects	W.I.
Alderson (Mannville oil)	100%
Chain/Craigmyle (Belly River/Ostracod oil, gas)	74%
Enchant (Sawtooth oil, gas)	100%
Hayter (Dina oil)	24%
Jumpbush (Mannville oil)	96%
Queenstown (Mannville oil, gas)	100%
Rabbit Hills, Montana (Sawtooth oil)	75%
Red Creek, Montana (Madison/Cutbank oil)	100%
Land Holdings	
Gross Developed:	111,000 acres
Gross Undeveloped:	75,000 acres
Proved + Probable Reserves	
Oil & NGLs:	3,858 Mbbls
Gas:	34.3 Bcf
Production - 1997	
Oil:	1,980 bbls/d
Gas:	15.6 MMcf/d
Facilities	
Chain/Craigmyle	25 MMcf/d natural gas processing plant and compressor station
Queenstown	30 MMcf/d natural gas processing plant with fractionation

RABBIT HILLS



AREA FOCUS: RABBIT HILLS, MONTANA

The Rabbit Hills area is a new play trend for Summit in 1997, keying off the expanding oil trend in southwest Saskatchewan. The primary objective is Jurassic Sawtooth formation oil at depths of approximately 1,200 metres. Summit mapped the Shaunavon (Sawtooth) trend south from Saskatchewan into Montana and established that the play trend, potential and oil reserves were similar at Rabbit Hills. In a series of subsequent transactions, the Company acquired 350 barrels per day of oil production and exposure to a 65,000 acre land base.

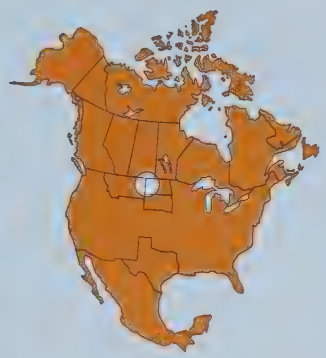
The majority of the producing wells acquired in Rabbit Hills are included in a pilot polymer injection project. With the initial success of this pilot project, and additional engineering work done by Summit, the Company is now proceeding with the unitization of this area. With unitization in place, Summit, as operator, will proceed with a full-scale enhanced recovery scheme. Summit expects increased oil recovery from the area as well as a reduction in lifting cost due to operating efficiencies.

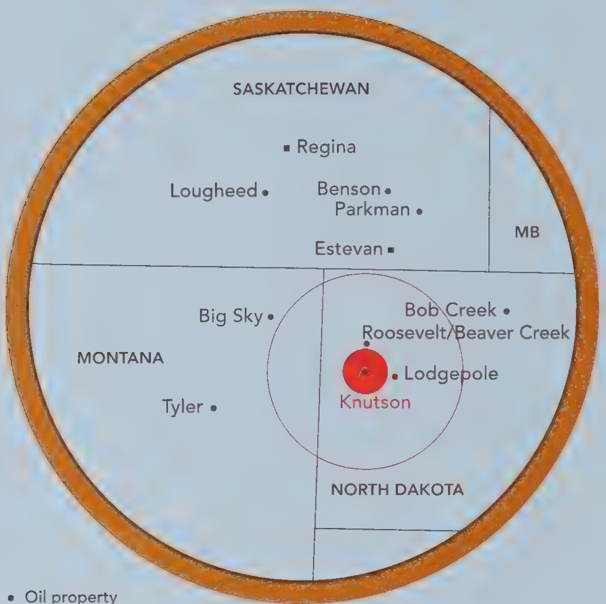
Other activity in 1997 included significant geological mapping and the acquisition of a 17 square mile 3-D seismic survey to delineate exploration and development opportunities within the play trend.

The play involves both structural and stratigraphic aspects of shoreline sand accumulations. Both 2-D and 3-D seismic are used to delineate porous fairways, define thicker reservoirs and identify structural features.

Plans for 1998 include a five-well pilot program in the first quarter to confirm new pool potential. The first four of these wells have been drilled and cased with tie-ins and battery construction in progress. However, because of the relatively heavy oil produced (20° API), further development work in the area may be deferred if low oil prices and high differentials persist in 1998.

Williston Basin





• Oil property

AREA OVERVIEW

The Williston Basin provides Summit with oil production and exploration potential from a project area straddling southern Saskatchewan, northern Montana and North Dakota. Typical plays present complex stratigraphy with a sizable structural component. Exploration and development methods in Saskatchewan include 3-D seismic in conjunction with horizontal drilling. In the U.S. where use of 3-D seismic has been less common, a greater competitive edge is established with its application. In 1997, the Williston Basin core area provided approximately 33 per cent of Summit's oil production. The Company's major properties include Big Sky in Montana; Lodgepole, Knutson, Roosevelt and Beaver Creek in North Dakota and Benson, Lougheed and Parkman in Saskatchewan.

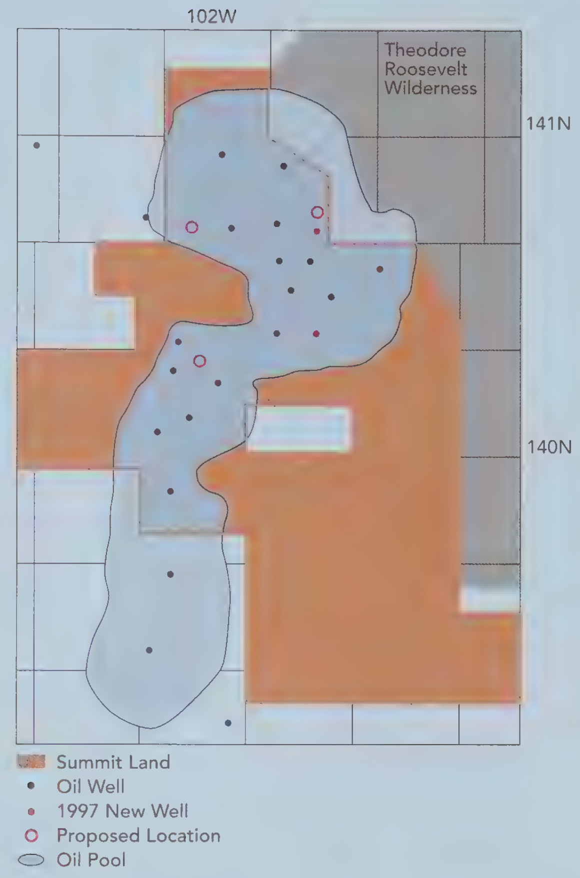
This area represents one of the first areas in which Summit operated. Early projects included Parkman, Viewfield, Benson and Lougheed. In 1997, Summit acquired a group of assets which included properties at Knutson, Roosevelt/Beaver Creek and Commertown, North Dakota. This acquisition included 87 wells, 45 of which Summit operates.

The U.S. portion of Summit's Williston Basin activity is currently in transition to a growth area and is the focus for short-term volume gains and longer-term exploration potential. The key property and prospect acquisitions Summit made in 1997, resulted in incremental production of 800 barrels of oil per day as well as five million barrels of proved plus probable oil reserves. New, internally

WILLISTON BASIN AT A GLANCE

Projects	**W.I.**
Big Sky, Montana (Red River oil)	42%
Knutson, North Dakota (Mission Canyon oil)	89%
Lodgepole, North Dakota (Lodgepole oil)	54%
Roosevelt/Beaver Creek, North Dakota (Red River, Duperow, Bakken oil)	81%
Benson, Saskatchewan (Midale oil)	64%
Lougheed, Saskatchewan (Midale oil)	100%
Parkman, Saskatchewan (Tilston oil)	81%
Land Holdings	
Gross Developed:	27,000 acres
Gross Undeveloped:	295,000 acres
Proved + Probable Reserves	
Oil and NGLs:	8,476 Mbbls
Gas:	2.5 Bcf
Production - 1997	
Oil:	2,000 bbls/d
Gas:	0.5 MMcf/d

KNUTSON



generated play concepts were drilled in 1997, resulting in three new pool discoveries in the Red River and Duperow formations in Montana and North Dakota.

In total, Summit drilled 27 wells in Williston Basin in 1997 including 20 oil wells and seven dry holes.

Plans for 1998 include further work on ten light oil drilling prospects Summit has identified in the Williston Basin. All have 2-D or 3-D seismic control and substantial established acreage positions, and target light oil reservoirs with good reserves potential. Summit is also continuing to evaluate lands and seismic acquired in the Tyler channel trend, and has budgeted four exploratory tests in central Montana during the second and third quarters of 1998.

AREA FOCUS: KNUTSON, NORTH DAKOTA

The Knutson play is an established Mississippian Mission Canyon oil field. Engineering and geological analysis indicate the reservoir has not been fully delineated from a drilling perspective. Engineering evaluations of the geological and pressure data also indicate potential for secondary recovery.

Based on these evaluations, Summit drilled a successful, 100 per cent working interest stepout development well in the third quarter of 1997. Also in 1997, the Company reprocessed a 2-D seismic database, the reinterpretation of which indicates several deep structures which hold potential in the Devonian Duperow and Ordovician Red River formations as well as the Mission Canyon, providing multi-zone drilling opportunities for the future.

In 1998, Summit plans new vertical wells and horizontal re-entries to delineate the Mission Canyon field. In addition, the Company plans to unitize the field and implement a waterflood program to increase production and reserve recoveries.

East Texas

AREA OVERVIEW

While not a core area, east Texas provides an opportunity to participate in new ventures and holds the potential for access to higher priced natural gas markets and lower transportation costs. The Company holds interests in properties in Smith County East, Smith County West and Rusk County. The major play consists of gas-prone Cotton Valley pinnacle reefs. Drilling of targets on-trend with Company acreage has resulted in significant reserves. The pinnacle reef fairway is defined using 2-D seismic, and the pinnacles themselves are pinpointed using 3-D seismic. Summit's involvement began in 1996 with a seismic purchase and the acquisition of 95,000 acres of highly prospective land in which the Company holds a 23 per cent interest.

In 1997, Summit completed a 3-D survey of the Winona prospect which indicates several drillable reef prospects. Additional 3-D seismic is being acquired adjacent to Winona in the second quarter of 1998 with drilling anticipated in the third and fourth quarters. A 3-D survey shot over prospects in Rusk County will also be evaluated in 1998.

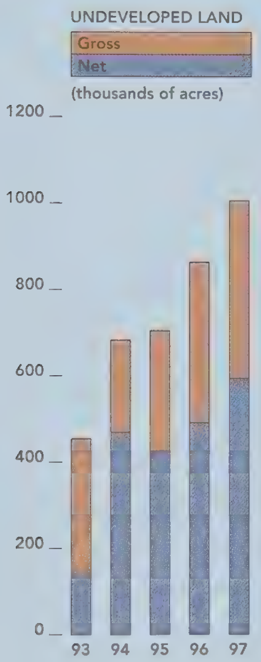
EAST TEXAS AT A GLANCE

Projects	**W.I.**
Smith County East (Cotton Valley gas)	18%
Smith County West (Cotton Valley gas)	51%
Rusk County (Cotton Valley gas)	20%
Land Holdings	
Gross Undeveloped:	118,000 acres
Net Undeveloped:	27,000 acres
Proved + Probable Reserves	
Gas:	undrilled
Production	
Gas:	undrilled

Land Review

Gary W. Browne, *Vice President, Land*

Mr. Browne was appointed Vice President, Land in 1993 after serving as Manager, Land Negotiations and as a full time consultant with Summit since 1990. Prior to joining Summit, he worked for over 20 years as a Landman for various Canadian and international oil companies. Mr. Browne holds a Bachelor of Arts degree in Economics, and is a member of the Canadian Association of Petroleum Landmen and the American Association of Petroleum Landmen.



CANADA

The Canadian oil and gas industry experienced record land costs in 1997, with governments taking in $1.51 billion in bonuses giving an average lease acquisition rate of $88 per acre. Summit was very selective in its acquisitions, purchasing 56,418 gross acres (44,259 net). These acquisitions were divided relatively evenly between Summit's west central Alberta and northeastern British Columbia focus areas.The outlook for the first half of 1998 is for continued high land costs. Summit will accordingly make strategic but judicious land purchases, focusing on its west central Alberta and northeastern British Columbia focus areas.

UNDEVELOPED LAND SUMMARY - CANADA

	1997			1996		
(acres)	Gross	Net	Average Interest	Gross	Net	Average Interest
Alberta	304,596	212,012	70%	282,514	196,429	70%
British Columbia	157,250	94,175	60%	85,977	59,224	69%
Saskatchewan	1,860	781	42%	3,249	1,708	53%
Total Canada	463,706	306,968	66%	371,740	257,361	69%

UNITED STATES

Land costs in the United States were also higher in 1997 and leasing activity in many areas was very competitive. Summit acquired a total of 43,986 gross acres (17,874 net). In the Williston Basin, the Company acquired 18,730 gross acres (12,653 net) and in Summit's east Texas project area the Company acquired 22,906 gross acres (4,281 net).

Summit has a well-established land position in its focus areas and does not foresee large land expenditures in 1998. The Company's strategy for the Williston Basin is to target well-defined and contained prospects thereby keeping overall land costs low. Summit has moved into the evaluation phase in east Texas so its leasing activities will be reduced substantially in 1998.

UNDEVELOPED LAND SUMMARY - U.S.

	1997			1996		
(acres)	Gross	Net	Average Interest	Gross	Net	Average Interest
Montana	179,200	138,908	78%	138,084	108,352	78%
North Dakota	197,993	71,651	36%	176,597	65,897	37%
South Dakota	92,343	46,133	50%	81,973	40,987	50%
Kansas	2,475	990	40%	–	–	–
Texas	118,013	27,405	23%	95,107	23,124	24%
Total U.S.	590,024	285,087	48%	491,761	238,360	48%

In total, Summit's undeveloped land position at December 31, 1997 totaled 1,053,730 gross acres (592,055 net) compared to 863,501 gross acres (495,721 net) in 1996.

Operations Review

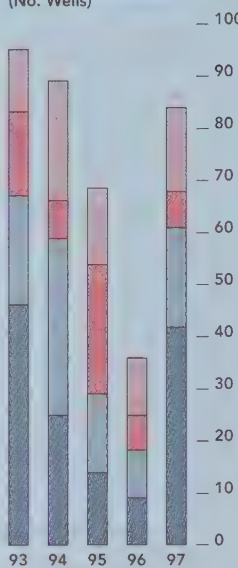
Donald J. Nelson, *Vice President, Operations*

Mr. Nelson was appointed Vice President, Operations in July 1996. Prior to joining Summit, Mr. Nelson worked for over 20 years in the oil and gas industry. Mr. Nelson holds an Honours Bachelor of Science degree in Mathematics and is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta.

DRILLING

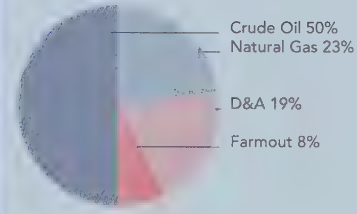
During 1997, Summit participated directly in the drilling of 77 wells and farmed-out another seven wells to industry partners. Of Summit's participation wells, 16 (9.9 net) were exploratory and resulted in a 51 per cent success rate. The remaining 61 were development and resulted in an 81 per cent success rate. Summit drilled 59 wells in Canada and 18 in the U.S. Overall, the Company drilled 42 oil wells (17.5 net) and 19 natural gas wells (13.9 net) to an average depth of 1,700 metres.

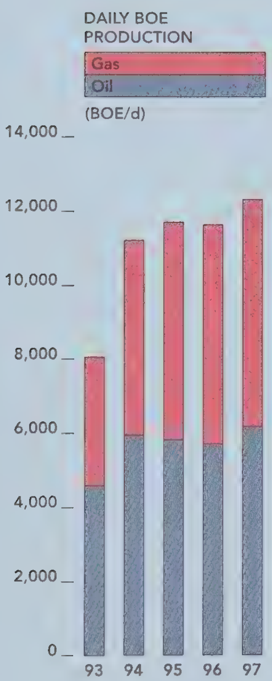
DRILLING ACTIVITY



DRILLING ACTIVITY – 1997	EXPLORATORY		DEVELOPMENT		TOTAL	
	Gross	Net	Gross	Net	Gross	Net
Crude Oil	4	2.0	38	15.5	42	17.5
Natural Gas	3	3.0	16	10.9	19	13.9
Dry	9	4.9	7	6.2	16	11.1
Total	16	9.9	61	32.6	77	42.5
Success Rate	44%	51%	89%	81%	79%	74%
Average Working Interest		62%		53%		55%

1997 DRILLING ACTIVITY





PRODUCTION

Summit achieved average production of 12,362 barrels of oil equivalent per day in 1997, compared to 11,713 barrels of oil equivalent per day in 1996, an increase of six percent. Oil production during 1997 averaged 6,145 barrels per day compared to 5,707 barrels per day in 1996, an increase of eight per cent. Natural gas production averaged 62.2 million cubic feet per day compared to 60.1 million cubic feet per day in 1996.

RESERVES

Summit's drilling and acquisitions program added 6.6 million barrels of crude oil and natural gas liquids reserves on a proved basis, and 8.3 million barrels on a proved plus probable basis. Similarly, natural gas reserve additions totaled 50.4 billion cubic feet on a proved basis and 62.5 billion cubic feet on a proved plus probable basis.

Dispositions, revisions and production of crude oil and natural gas liquids totaled 4.2 million barrels on a proved basis and 5.3 million barrels on a proved plus probable basis for a net increase in crude oil and natural gas liquids reserves of 2.5 million barrels on a proved basis and 3.0 million barrels on a proved plus probable basis. Dispositions, revisions and production of natural gas totaled 59.7 billion cubic feet on a proved basis and 80.7 billion cubic feet on a proved plus probable basis for a net decrease in natural gas reserves of 9.3 billion cubic feet on a proved basis and 18.2 billion cubic feet on a proved plus probable basis.

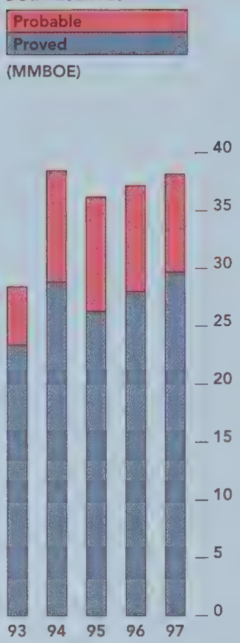
RECONCILIATION OF CHANGES IN RESERVES

	Crude Oil and NGLs (Mbbls)			Natural Gas (MMcf)		
	Proved	Probable	Total	Proved	Probable	Total
Balance, December 31, 1996	12,125	5,009	17,134	156,722	46,237	202,959
Additions	1,385	305	1,690	27,906	6,170	34,076
Acquisitions	5,231	1,369	6,600	22,512	5,900	28,412
Dispositions	(1,669)	(461)	(2,130)	(33,155)	(11,999)	(45,154)
Revisions	(244)	(718)	(962)	(3,895)	(8,977)	(12,872)
Production	(2,243)	–	(2,243)	(22,693)	–	(22,693)
Balance, December 31, 1997	14,585	5,504	20,089	147,397	37,331	184,728

RESERVE LIFE INDICES

	Proved	Total	
Crude Oil and NGLs	6.5	9.0	based on 1997 production of 6,145 bbls/d
Natural Gas	6.5	8.1	based on 1997 production of 62.2 MMcf/d
BOE (10 Mcf = 1 bbl)	6.5	8.6	based on 1997 production of 12,362 BOE/d

BOE RESERVES



At December 31, 1997, Summit's reserves totaled 20.1 million barrels of oil and 184.7 billion cubic feet of gas on a proved plus probable basis. Based on 1997 production rates for oil and gas, the proved plus probable reserve life index for oil is 9.0 years, and for gas is 8.1 years.

PRESENT VALUE OF RESERVES

		$ thousands
Reserve Value @ 10%	Proved	237,236
	Proved plus Probable	291,517
Reserve Value @ 15%	Proved	199,926
	Proved plus Probable	239,178

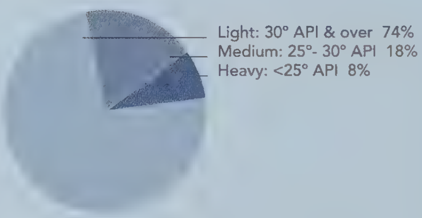
MARKETING

West Texas Intermediate ("WTI") crude oil prices declined by six per cent in 1997, averaging U.S. $20.61 per barrel compared to U.S. $22.00 per barrel in 1996. Average monthly prices fell from a yearly high of U.S. $25.18 per barrel in January to U.S. $18.32 in December. The decline was attributable to reduced demand caused by milder temperatures, a downturn in the southeast Asian economy and oversupply by both OPEC and non-OPEC producing countries.

In Alberta, prices for light, sweet crude oil at Edmonton averaged U.S. $0.63 per barrel below WTI. Although this basis differential has remained relatively stable during the past few years, the heavy to light crude differential has widened considerably due to increased heavy oil production.

With approximately 70 per cent of Summit's oil production being light, sweet oil, the Company was able to realize a 1997 average price of $23.89 per barrel for oil and natural gas liquids. Although this represents a decrease of six per cent from 1996 levels, Summit has maintained its position as a top netback producer.

CRUDE OIL QUALITY



NYMEX natural gas prices increased three per cent over 1996 to average U.S. $2.63 per thousand cubic feet for the last three settlement days during 1997, buoyed by a record price in January of U.S. $4.25 per thousand cubic feet. NYMEX prices declined sharply in the fourth quarter of 1997, due to mild winter conditions characteristic of an El Niño weather system.

The increase in gas prices in 1997 was more pronounced in western Canada than in other parts of North America. Alberta AECO C prices averaged $1.77 per gigajoule, an increase of more than 30 per cent over the prior year. Prices at Sumas, British Columbia averaged U.S. $1.71 per thousand cubic feet, an increase of 25 per cent over 1996 levels. A combination of strong first quarter prices due to cold weather, strong summer demand due to depleted storage reservoirs and a tightening of western Canada's supply and demand balance were factors contributing to this increase.

During 1997, Summit's average plantgate price was $2.06 per thousand cubic feet compared to $1.70 per thousand cubic feet in 1996. The Company's natural gas marketing strategy has been to structure a diversified portfolio with a mix of markets, contract durations and geographic price exposures. This strategy has enabled Summit to achieve prices that continue to outperform the industry average.

The outlook for WTI prices remains uncertain. Increased OPEC production quotas, continued supply increases from non-OPEC producers, uncertainty around the Iraq and UN oil-for-food agreement, high crude oil inventories due to mild winter weather, and continued economic turmoil in southeast Asia are all factors contributing to a pessimistic short-term outlook. A reduction in OPEC production would appear to be the only factor that could provide support to prices.

In Canada, the impending Line 9 reversal has the potential to reduce eastern Canadian refinery demand for domestic production and to negatively impact crude oil prices. IPL expansions should alleviate current high levels of apportionment. For budgeting purposes, Summit has selected a WTI price of U.S. $17.00 per barrel.

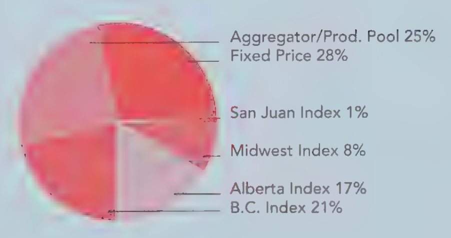
The outlook for the natural gas industry is very positive. TCPL and Northern Border expansions scheduled for November 1998 will increase Alberta exports by 1.1 billion cubic feet per day. Approval for the Alliance Pipeline project appears imminent and its completion will add 1.3 billion cubic feet of export capacity to higher priced midwest markets. Drilling activity in Canada will be limited by rig availability. The industry is facing increased depletion rates. As the gas deliverability surplus in the western Canadian sedimentary basin declines, basis differentials will continue to narrow.

To benefit from the expected tightening of supply and demand and the resulting rise in prices, Summit has a large percentage of its production floating at market prices. Summit's forecast gas price for 1998 is $1.85 per thousand cubic feet. This price does not include expected payments from two natural gas contract termination settlements. Summit is confident of favourable settlements in both instances.

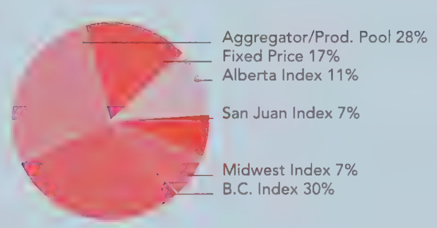
As part of Summit's strategy of reducing operating costs, transportation utilization is actively managed on British Columbia's Westcoast Energy Inc. system and Alberta's NOVA system. A combination of transportation transfers, assignments and terminations reduced these costs in late 1997. Ongoing efforts will continue to reduce these costs in the future.

Consistent with past years, Summit will maintain a proactive risk management strategy. This strategy will provide Summit with the cash flow stability necessary to fund budgeted capital expenditures.

1997 NATURAL GAS PORTFOLIO



1998 NATURAL GAS PORTFOLIO



Management's Discussion and Analysis of Financial Condition and Results of Operations

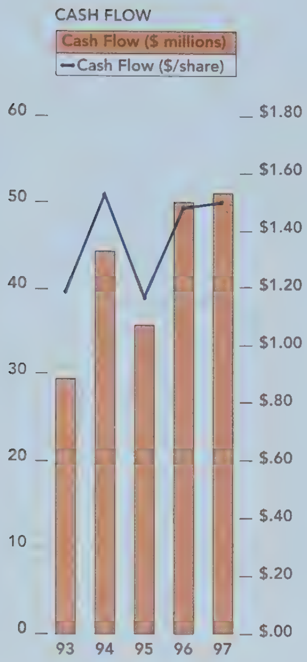
David A. Dyck, *Vice President, Finance*

Mr. Dyck joined Summit in 1988 and, after serving in various capacities within the accounting and finance areas, was appointed Vice President, Finance and Chief Financial Officer in 1996. Mr. Dyck holds a Bachelor of Commerce degree and is a Chartered Accountant. He is a member of the Canadian and Alberta Institutes of Chartered Accountants, the Canadian Petroleum Tax Society and the Financial Executives Institute.

The following discussion of financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and Notes thereto. It offers Management's analysis of Summit's historical financial and operating results and provides estimates of Summit's future financial and operating performance based on information currently available. Actual results may vary from estimates and the variances may be significant.

FINANCIAL SUMMARY

($ thousands except where noted)	1997	1996	1995	1994	1993
Oil & Natural Gas Sales	100,853	91,140	76,707	81,558	52,289
Cash Flow from Operations	50,817	50,006	36,242	44,565	29,044
Cash Flow per Share	$1.51	$1.46	$1.16	$1.59	$1.18
Net Earnings (Loss)	(30,944)	7,451	2,745	10,807	7,960
Net Earnings (Loss) per Share	($0.92)	$0.22	$0.09	$0.39	$0.32
Capital Expenditures (net)	88,380	67,597	60,230	100,442	78,809
Long-term Debt (net of working capital)	129,756	65,893	49,071	90,320	35,662
Shareholders' Equity	150,367	190,382	184,536	115,314	103,242
Common Shares Outstanding (thousands)					
At December 31	33,328	34,370	34,270	28,301	28,004
Weighted Average	33,631	34,244	31,216	28,026	24,550



CASH FLOW FROM OPERATIONS

A variety of factors combined to increase Summit's cash flow from operations by two per cent in 1997 to $50.8 million with cash flow per share increasing over three per cent to $1.51 (1996 - $1.46):

- an 11 per cent increase in oil and natural gas revenue
- a 22 per cent decrease in general and administrative expenses
- a Normal Course Issuer Bid undertaken by the Company in 1997 positively impacted cash flow per share by reducing the number of shares outstanding

These gains in cash flow were offset by:

- a 25 per cent increase in unit operating expenses
- an 11 per cent increase in interest costs

The following discussion will provide detailed explanation and analysis of the specific components of Summit's financial and operating results as well as the anticipated impact of these results on future prospects and performance.

CASH FLOW SUMMARY

	1997	1996	1995	1994	1993
Cash Flow - $ thousands	50,817	50,006	36,242	44,565	29,044
Cash Flow - $/Share	1.51	1.46	1.16	1.59	1.18
Cash Flow - $/BOE	11.26	11.66	8.45	10.79	9.92

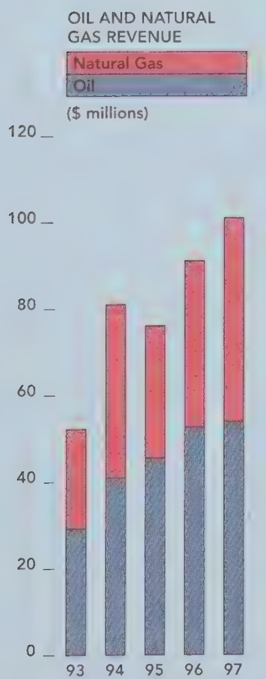
OIL AND NATURAL GAS REVENUE

Revenue from oil and natural gas increased 11 per cent to $100.9 million compared to $91.1 million in 1996. Of this $9.8 million increase, $4.6 million was due to increased BOE production levels and $4.6 million was attributed to increased natural gas prices.

Oil Revenue

Revenue from oil sales remained relatively unchanged at $54.1 million compared to $53.8 million in 1996 with increases in production volumes offset by a decline in oil prices:

- oil production increased by eight per cent to 6,145 bbls/d from 5,707 bbls/d in 1996
- Summit' s realized oil price declined by six per cent to $23.89/bbl (1996 - $25.49) mirroring a six per cent decrease in average WTI oil prices from U.S. $22.00 in 1996 to U.S. $20.61 in 1997



Natural Gas Revenue

Summit's natural gas revenue increased 25 per cent in 1997 to $46.7 million from $37.3 million in 1996:

- 1997 production of 62.2 MMcf/d represents a four per cent increase over 1996 volumes of 60.1 MMcf/d
- a 21 per cent increase in Summit's natural gas price of $2.06/Mcf (1996 - $1.70/Mcf) allowed Summit to remain in the top quartile compared to industry competitors. Summit's pricing advantage is a direct result of the Company's in-house marketing effort and higher BTU content natural gas production.

OIL AND NATURAL GAS SALES SUMMARY

	1997	1996	1995	1994	1993
Oil & Natural Gas Sales - $ thousands					
Oil Sales	54,121	53,794	45,494	41,068	29,601
Natural Gas Sales	46,732	37,346	31,213	40,490	22,688
Total	100,853	91,140	76,707	81,558	52,289
Oil/Gas Ratio %	54 / 46	59 / 41	59 / 41	50 / 50	57 / 43
Production					
Oil - bbls/d	6,145	5,707	5,826	5,960	4,619
Natural Gas - MMcf/d	62.2	60.1	59.2	53.6	34.1
Total - BOE/d	12,362	11,713	11,750	11,319	8,025
Product Prices					
Oil - $/bbl	23.89	25.49	20.97	18.40	17.07
Natural Gas - $/Mcf	2.06	1.70	1.44	2.07	1.82
Total - $/BOE	22.23	21.13	17.67	19.49	17.57

ROYALTIES

Summit maintains an overall balance between oil and natural gas production which lends itself to reasonably consistent royalty rates from year to year. The geographic source of Summit's production has changed, however, between Canada and the United States, and among provinces within Canada which introduces some variability in rates. On a corporate basis, total royalties increased 23 per cent from $13.9 million in 1996 to $17.0 million in 1997:

- freehold and overriding royalties as a percentage of sales have increased due to increased production from U.S. properties where leases are predominantly freehold
- crown royalties as a percentage of sales have remained relatively constant
- oil royalty rates remained comparable to 1996 levels, with a slight increase to 19.4 per cent from 18.2 per cent in 1996
- gas royalty rates increased to 14.2 per cent in 1997 compared to 11.2 per cent a year earlier. Gas royalty rates were impacted by steep increases in natural gas prices, particularly during the first quarter of 1997, which resulted in a high reference price for crown royalty calculation purposes. Prior year rates were not representative due to positive gas cost allowance adjustments reflected in the 1996 rates.

ROYALTY SUMMARY

	1997	1996	1995	1994	1993
Royalties - $ thousands					
Oil	10,379	9,708	6,997	5,907	3,517
Gas	6,646	4,170	4,989	7,214	4,066
Total	17,025	13,878	11,986	13,121	7,583
% of Sales					
Oil - %	19.4	18.2	15.7	14.8	12.2
Gas - %	14.2	11.2	16.0	18.0	17.9
Total - %	17.0	15.3	15.8	16.4	14.7

OPERATING EXPENSES

Operating expenses in 1997 increased 25 per cent to $5.06/BOE from $4.05/BOE in 1996. Operating costs for oil and liquids increased 29 per cent from $4.29 to $5.55/bbl as a result of:

- acquiring U.S. oil properties with higher unit operating costs than Summit's corporate average
- declining production on Summit's more mature properties which have predominantly fixed operating costs
- generally higher service costs due to heightened industry activity levels

Natural gas operating costs increased 21 per cent to $0.46/Mcf in 1997 compared to $0.38 per Mcf in 1996 due to:

- increased production in British Columbia where operating costs and, in particular, Westcoast processing charges have escalated
- increased operating costs associated with the Mirage sour gas facility

Several factors should reduce operating costs in the future, including:

- increased production and field facilities optimization are expected to decrease unit costs on U.S. properties acquired in 1997
- dismantling of the Company's Mirage sour gas facility in 1998 will see Summit's volumes processed through an outside-operated facility at a lower unit cost

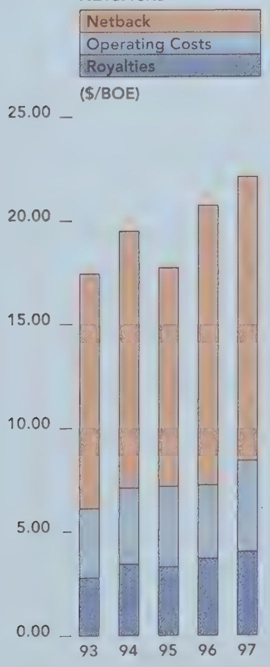
OPERATING EXPENSE SUMMARY

	1997	1996	1995	1994	1993
Operating Expenses - $ thousands					
Oil	12,440	8,970	8,907	8,040	6,125
Gas	10,380	8,374	8,855	7,786	4,096
Total	22,820	17,344	17,762	15,826	10,221
Unit Operating Expenses					
Oil - $/bbl	5.55	4.29	4.19	3.70	3.63
Gas - $/Mcf	0.46	0.38	0.41	0.40	0.33
Total - $/BOE	5.06	4.05	4.14	3.83	3.49

OIL AND NATURAL GAS NETBACKS

Summit continues to achieve exceptional returns on its oil and gas production with a 1997 netback of $13.40 per BOE. Stable royalty rates and effective cost management in conjunction with Summit's high-quality crude oil production, higher BTU content natural gas, and premium natural gas contracts enable the Company to achieve above-average netbacks under a variety of market conditions.

NETBACKS



NETBACK SUMMARY

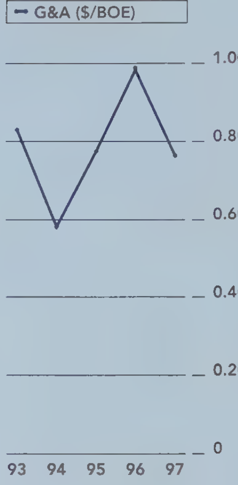
	1997	1996	1995	1994	1993
Crude Oil and NGLs - $/bbl					
Revenue	23.89	25.49	20.97	18.40	17.07
Royalties	(4.63)	(4.65)	(3.29)	(2.72)	(2.09)
Operating Costs	(5.55)	(4.29)	(4.19)	(3.70)	(3.63)
	13.71	16.55	13.49	11.98	11.35
Natural Gas - $/Mcf					
Revenue	2.06	1.70	1.44	2.07	1.82
Royalties	(0.29)	(0.19)	(0.23)	(0.37)	(0.32)
Operating Costs	(0.46)	(0.38)	(0.41)	(0.40)	(0.33)
	1.31	1.13	0.80	1.30	1.17
Total Netback - $/BOE	13.40	13.84	10.74	12.48	11.49

GENERAL AND ADMINISTRATIVE EXPENSES

Summit remains committed to cost reduction, as exemplified by the Company's consistently low administrative expenses which decreased 22 per cent in 1997 to $3.2 million. General and administrative expenses per BOE also decreased 24 per cent to $0.73 per BOE in 1997 compared to $0.96 per BOE in the previous year. The decrease is attributable to the following factors:

- exploration and development spending increased 53 per cent over 1996, attracting a corresponding increase in capital overhead recoveries
- approximately $200,000 of general and administrative expenses were capitalized in 1997 to better reflect the carrying cost of the Company's investment in the Alliance Pipeline project and Fort Chicago (referenced to page 27)

GENERAL & ADMINISTRATIVE EXPENSES PER BOE



GENERAL AND ADMINISTRATIVE EXPENSE SUMMARY

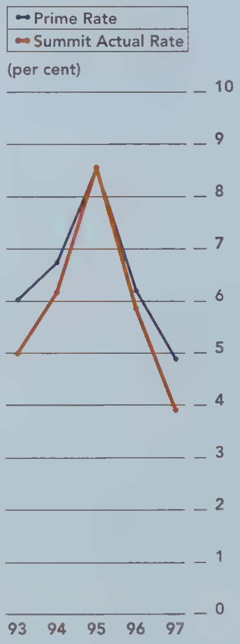
($ thousands except where noted)	1997	1996	1995	1994	1993
G & A Expenses - gross	7,055	7,222	6,327	5,792	5,078
Overhead Recoveries	(3,740)	(3,113)	(3,108)	(3,420)	(2,587)
G & A Expenses - net	3,315	4,109	3,219	2,372	2,491
Net G & A Expenses - $/BOE	0.73	0.96	0.75	0.57	0.85

INTEREST EXPENSE

Summit's successful acquisitions, and the Company's investment in Fort Chicago during 1997, resulted in a significant increase in year-end debt levels compared to 1996. Despite a 67 per cent increase in average debt, total interest expense for 1997 only increased by 11 per cent compared to the previous year, reflecting a 34 per cent decrease in the Company's average interest rate. A combination of market conditions and strategic financing contributed to the marked decline in interest rates:

- Canadian prime interest rates decreased over 20 per cent from 1996 to average 4.9 per cent
- in 1996, the Company entered into two financial transactions which effectively converted a 6.78 per cent fixed rate on its U.S. $30 million Senior Notes into a floating Canadian rate at a discount to short-term market rates. The average rate incurred on the Senior Notes in 1997 was 2.9 per cent.

INTEREST EXPENSE



INTEREST EXPENSE SUMMARY

($ thousands except where noted)	1997	1996	1995	1994	1993
Average Debt Outstanding	115,194	69,005	73,556	64,135	38,307
Average Interest Rate	3.9%	5.9%	8.6%	6.1%	5.1%
Interest Expense	4,465	4,039	6,322	3,939	1,941
Interest Expense - $/BOE	0.99	0.94	1.47	0.95	0.66
Interest Coverage Ratio	12.38	13.38	6.73	12.31	15.96
Debt to Equity Ratio (excluding Fort Chicago)	0.71	0.36	0.28	0.74	0.33
Debt to Cash Flow (excluding Fort Chicago)	2.11	1.36	1.41	1.91	1.19

CAPITAL AND PRODUCTION TAXES

Capital and production taxes increased considerably in the current year primarily due to changes in the Company's production base. The majority of production and severance taxes are incurred on the Company's production in Montana and North Dakota which reflects current year property acquisitions in Rabbit Hills and the Williston Basin. Large Corporations Tax has increased slightly as a result of Summit's increased taxable capital base while the Saskatchewan capital tax has remained relatively constant.

CAPITAL AND PRODUCTION TAX SUMMARY

($ thousands except where noted)	1997	1996	1995	1994	1993
Production and Severance Taxes	1,625	879	553	525	325
Capital Taxes	883	850	771	754	398
Total	2,508	1,729	1,324	1,279	723
Capital Taxes - $/BOE	0.56	0.40	0.31	0.31	0.25

NET EARNINGS (LOSS)

Although cash flow from operations has increased from 1997 as a result of the items discussed above, the write-down recorded on the Company's U.S. cost centre resulted in a substantial decline in earnings and a $30.9 million net loss ($0.92/share) for the year. Excluding the write-down, Summit would have posted positive earnings in 1997. Even without the write-down, however, earnings would have decreased compared to 1996, due to higher depletion and depreciation costs related to increased 1997 production levels.

NET EARNINGS (LOSS) SUMMARY

	1997	1996	1995	1994	1993
Net Earnings (Loss) - $ thousands	(30.944)	7,451	2,745	10,807	7,960
Net Earnings (Loss) - $/Share	(0.92)	0.22	0.09	0.39	0.32
Net Earnings (Loss) - $/BOE	(6.86)	1.74	0.64	2.62	2.72

DEPLETION AND DEPRECIATION

Summit follows the full-cost method of accounting whereby all costs associated with the exploration for, and development of, petroleum and natural gas reserves are capitalized on a country-by-country basis. Depletion and depreciation is then provided on a unit of production method based on total proved reserves with gas converted to an oil equivalent using the estimated relative heating content (6 Mcf to 1 bbl). Depletion and depreciation in 1997 totaled $76 million compared to $35 million in 1996. Included in the 1997 provision is $34.5 million representing a write-down of assets in Summit's U.S. cost centre.

Under Generally Accepted Accounting Principles ('GAAP'), the Company is required to evaluate the carrying value of its properties in each country against the estimated future cash flows the properties' proved reserves will generate at constant prices over their economic life. In performing this "ceiling test", the Company has the option to use either average commodity prices for the year or prices in effect at the end of the year.

Using average oil prices for 1997 (U.S. $20.61 WTI), Summit's proved reserves in the United States satisfy the "ceiling test" requirements under GAAP. However, using year-end constant prices of U.S. $17.68, a "ceiling test" deficiency resulted for the Company's U.S. cost centre. In light of the soft crude oil prices that currently exist, and the expectation that soft prices are likely to continue in 1998 due to decreased demand in southeast Asia and OPEC's decision to increase production output, the Company used the more conservative year-end oil price in its "ceiling test" calculation. This calculation, together with the Company's decision to write-off certain land and seismic costs on U.S. properties evaluated by the Company, resulted in a write-down of $34.5 million on the Company's U.S. cost centre. In Canada, future net revenues are considerably higher than the carrying costs of the reserves.

On a BOE basis, 1998 depletion and depreciation rates are expected to decline by 25 per cent as a result of the write-down. Overall, depletion and depreciation are expected to increase on a basis commensurate with increased production levels.

DEPLETION AND DEPRECIATION SUMMARY

($ thousands except where noted)	1997	1996	1995	1994	1993
Depletion Expense	64,800	24,103	19,880	16,938	10,669
Depreciation Expense	11,259	10,868	9,905	8,169	4,830
Total	76,059	34,971	29,785	25,107	15,499
Depletion - $/BOE (6:1)	14.36	4.19	3.47	3.12	2.84
Depreciation - $/BOE (6:1)	2.50	1.89	1.73	1.50	1.29
Total - $/BOE (6:1)	16.86	6.08	5.20	4.62	4.13

DEFERRED INCOME TAXES

The current year deferred income tax provision and associated effective tax rate have been disproportionately impacted by the $34.5 million write-down booked on the Company's U.S. cost centre. Under Generally Accepted Accounting Principles, the Company is entitled to recognize a deferred tax recovery on the write-down to the extent of deferred taxes provided in that cost centre in prior years. Given that the Company's U.S. operations have been predominantly focussed on exploration, the U.S. cost centre has not generated significant income in past years to accumulate substantial deferred tax credits. As such, there is a minimal impact of the write-down on the 1997 deferred tax provision.

Summit will continue to add to its tax pool base through on-going exploration and development expenditures, thereby abating any cash taxes in the immediate future.

DEFERRED TAX SUMMARY

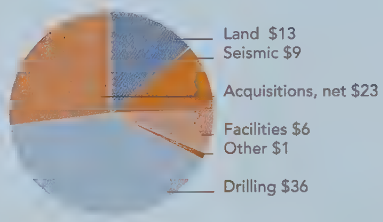
	1997	1996	1995	1994	1993
Deferred Tax Expense - $ thousands	4,754	6,107	2,310	7,545	4,711
Effective Tax Rate - %	n/a	45	46	41	37

CAPITAL EXPENDITURES

Summit's capital expenditure program in 1997 totaled $88.4 million with over 70 per cent of the $64 million of exploration and development expenditures allocated to Summit's Canadian operations, and the balance to the United States. Summit's 1997 exploration and development program included:

- land and seismic expenditures of $22 million which will provide future exploration opportunities by increasing the Company's undeveloped land base to over one million acres
- drilling expenditures of $36 million incurred to drill 84 wells (43 net)
- $6 million invested to equip new wells and install facilities to accommodate production levels

1997 CAPITAL EXPENDITURES



During 1997, Summit expanded its production base in core areas by acquiring properties totalling $75 million, and rationalizing its property holdings through the disposition of non-core assets. Highlights of the 1997 acquisition/disposition program included:

- an acquisition of producing assets in the Williston Basin and in Rabbit Hills, Montana which expanded Summit's oil production base
- an acquisition at Fox Creek, Alberta to offset a portion of the Company's natural gas and liquids divestitures
- the disposition of non-core assets totaling $51 million, including interests at Sturgeon Lake, Dunvegan, Manir, Pine Creek and Hays in Alberta, and Viewfield and Cantal in Saskatchewan

Summit's 1997 capital program was financed through a combination of cash flow from operations and drawings on existing credit facilities with the Company's bank.

CAPITAL EXPENDITURE SUMMARY

($ thousands)	1997	1996	1995	1994	1993
Lease Acquisitions	12,578	10,807	7,163	20,960	4,727
Seismic	9,404	6,733	9,322	6,894	3,757
Drilling, Completions and Workovers	35,956	20,415	19,350	34,299	17,926
Capitalized G & A	-	-	-	1,355	1,508
Production Facilities	5,940	3,663	17,364	24,265	11,150
Property Acquisitions (net)	23,513	24,496	6,322	11,781	39,575
Administrative Assets	735	1,357	494	819	135
Site Restoration Expenditures	254	126	215	69	31
Total	88,380	67,597	60,230	100,442	78,809

INVESTMENT IN FORT CHICAGO

During 1997, the Company undertook a series of transactions whereby it disposed of its direct investment in the Alliance Pipeline project ("Alliance") to Fort Chicago Energy Partners L.P. ("Fort Chicago") and acquired Partnership units in Fort Chicago which continues to hold an approximate 26 per cent interest in Alliance. The net effect of these transactions was to reduce the Company's direct interest in Alliance while allowing Summit shareholders to retain their original position in Alliance by acquiring a direct interest in Fort Chicago while maintaining an indirect interest through Summit. The Alliance pipeline project is in a pre-construction phase with an expected in-service date of 2000.

LONG-TERM DEBT

Summit's policy is to fund exploration and development expenditures from cash flow, while using alternate sources of financing to fund facility construction and property acquisitions. This policy is consistent with the Company's general strategy of limiting debt to two times forward cash flow. In 1997, long-term debt increased to $125.1 million, up from $67.8 million in 1996. This 85 per cent increase in long-term debt of $57.3 million is detailed as follows:

• exploration and development spending in excess of cash flow	$ 6.8
• construction of production facilities	5.9
• property acquisitions net of dispositions of non-core assets	23.5
• investment in Fort Chicago	17.6
• share purchases through normal course issuer bid	6.8
• payment of cash dividends	2.3
• change in working capital	(6.6)
• administrative assets and site restoration	1.0

Summit is re-negotiating the terms of its existing loan facilities and syndicating its credit facilities with at least one additional bank. At December 31, 1997, Summit had $38.4 million of unused capacity within its credit facilities with the bank. Summit expects to fund its 1998 capital program entirely out of cash flow, thereby maintaining debt at its current level while operating within a debt level of two times cash flow.

A portion of Summit's debt ($41 million) has been privately placed with U.S. institutional investors in the form of senior notes. The Senior Notes carry an eight and one-half year average term, maturing on April 25, 2006 with payments structured through five equal installments commencing April, 2002. Foreign exchange swap arrangements have fixed the repayment of the principal amount of the Notes at their carrying value in Canadian dollars. The Senior Notes bear interest at a fixed rate of 6.78 per cent; however, interest rate swap arrangements have converted the fixed interest rate to a floating rate which fluctuates with the Canadian Bankers Acceptance Fee.

Summit is in compliance with all of the covenants associated with its bank facilities and the Senior Notes. As a result of the Company's investment in Fort Chicago and the effect of the net loss incurred in 1997, however, the payment of future cash dividends has been restricted pursuant to the terms of the Senior Notes agreement. As such, cash dividends will not be paid in the upcoming year.

DEFERRED REVENUE

In 1995, a purchaser under a natural gas contract commenced action against the Company, declaring that a gas purchase agreement between the Company and the purchaser was valid and subsisting. The Company has defended and counter-claimed on the basis that regulatory events have given it a right to terminate the agreement. On this basis, the Company has discontinued deliveries of natural gas under the agreement effective January 1, 1995. The courts have granted judgement in favour of Summit respecting its right to terminate the agreement in all appeals entered by the plaintiff. The Company has been paid a provisional settlement of U.S. $2.6 million which has been deferred pending appeal. Legal costs incurred to date respecting this issue have been applied against the provisional settlement proceeds. Pending final appeal to the U.S. Supreme Court, Summit anticipates settling this issue within the calendar year and finalizing the settlement amount. The proceeds of the settlement will be reflected as natural gas sales.

SHARE CAPITAL

During 1997, the Company's shares traded in a range of $4.25 to $8.00 which was comparable to the trading range experienced in 1996. The Company took advantage of the low trading price on its stock and obtained necessary regulatory approval to undertake a Normal Course Issuer Bid. During 1997, the Company purchased 1,061,800 of its own shares for cancellation at an average price of $6.35 per share.

BUSINESS RISKS

Summit's ability to meet its objectives of maximizing shareholder value and maintaining stable financial growth is influenced by a number of factors, the most basic of which is the Company's ability to find oil and gas reserves and produce them efficiently. Summit's commitment to full-cycle exploration maximizes our chance of success by broadening our scope to include all aspects of land and prospect evaluation, exploration and development, marketing and risk management.

Successful full-cycle exploration depends on sound management of operational and market factors, for example:

Capital Requirements:

Exploration, development and operating activities for a full-cycle oil and gas company can require substantial capital resources. These capital resources are often limited to internally generated cash flow. The ability to utilize available capital resources to efficiently replace produced reserves is, therefore, a critical success factor.

Volatility:

Key performance indicators including production volumes, cash flow, finding costs and product netbacks are very sensitive to changing industry, operating, or market conditions and are, therefore volatile. Summit has in place comprehensive reporting, analysis and evaluation systems to manage and, wherever possible, anticipate and react to such changes.

Commodity Pricing:

The prices which the Company receives for its commodities have been highly volatile and are influenced by many factors which are beyond Summit's control including global supply and demand, world-wide political events, weather, and exchange rate fluctuations. Summit's Board of Directors have established guidelines for the Company's risk management strategies which allow the Company to enter into financial transactions to mitigate price risk and establish more predictable cash flow. The Company also maintains a balanced portfolio of sales contracts for its products to reduce its exposure to short-term market fluctuations.

Competition:

Summit must compete with other industry participants for qualified personnel, financing, new acreage, drilling equipment, the services of oil and gas service companies, well equipment, commodity sales contracts and transportation capacity. Summit focuses its activities within select core areas where its experience and expertise should provide a competitive advantage. We utilize the very latest technology and employ the most skilled, highly-trained, motivated individuals in each of the Company's disciplines.

ENVIRONMENTAL PERFORMANCE

The regulatory environment in which the Company operates is becoming increasingly complex and the costs and potential impact of non-compliance are ever-increasing. Industry in general and, specifically, the oil and gas industry are faced with increasing concerns regarding the environmental impact of corporate operations.

Summit's Board of Directors has approved, and management has implemented, a comprehensive set of environmental and safety policies. A safety awareness and training program has been established for all employees and contractors and the Company has developed a safety procedures manual and emergency response plan to deal with situations which may jeopardize the environment or public safety. Regular, third-party environmental compliance reviews of all Summit-operated properties are conducted. Corporate insurance arrangements are in place to protect the Company against losses due to disruption or accidents.

Summit is committed to acting responsibly with respect to our operating environment and our control procedures and policies are in compliance with the Environmental Code of Practice published by the Canadian Association of Petroleum Producers. The Company's estimated liability for future abandonment and site restoration is reviewed annually and a provision is made on a unit-of-production basis. The total estimated liability for Summit is presently $12 million with $6 million recorded on the balance sheet to December 31, 1997.

YEAR 2000

Summit has set up an internal information technology committee to review and assess the impact of Year 2000 and to ensure that all of Summit's systems are Year 2000 compliant. Summit has aligned itself with mainstream vendors and all hardware purchased within the past few years is Year 2000 compliant. As a result, Summit expects the cost of replacing non-compliant hardware or testing for non-compliance to be minimal.

The focus of the committee is to contact suppliers of Summit's business, process control and administrative systems to ensure that they are aware of, and are addressing the problem on a timely basis. This process is in progress and Summit expects that all systems will be reviewed and tested by early 1999.

Summit does not expect that issues surrounding Year 2000 will have any significant or adverse effect on the Company's operating or reporting systems or on its financial results.

OUTLOOK

Summit has established a $40 million capital program for exploration and development activities in 1998, including drilling, facilities, land and geophysics. Sixty-eight per cent of this total has been allocated to drilling 70 wells, including 23 exploration projects and 47 development wells. Fifty-seven per cent of the Company's drilling and facilities capital has been allocated to natural gas with the remainder to crude oil. Forty wells are planned in Canada to expand the Company's natural gas projects and light oil production base, and 30 wells are planned in the U.S., mostly located in the Williston Basin, to expand the Company's crude oil production base.

Planned activities in 1998 will be funded entirely out of cash flow which is estimated at $46 million ($1.40 per share). The 1998 drilling program is expected to provide for growth in our production base of 12 per cent to 14,000 BOE per day. Our cash flow target is based on crude oil averaging U.S. $17.00 WTI per barrel throughout 1998, with U.S. currency at $0.71 relative to the Canadian dollar. Summit's realized natural gas price is expected to average $2.00 per Mcf, which includes $0.15 per Mcf from the settlement of natural gas contract disputes during 1998. Prudent financial management is critical during periods of low commodity price cycles to enable the Company to continue to capitalize on its opportunities.

SENSITIVITY TABLE

Variable	1998 Case	Variation	$000's	Cash Flow Impact $/Share
Oil Production - bbls/d	6,700	100	400	0.01
Gas Production - Mcf/d	73,000	1,000	400	0.01
Oil Prices - $U.S./bbl	17.00	1.00	2,700	0.08
Gas Prices - $Cdn./Mcf	1.85	0.10	2,700	0.08
Exchange Rate	0.71	0.01	600	0.02

Management's Report

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies described in the notes to the consolidated financial statements. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management has developed and maintains systems of internal accounting controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguarding of assets.

External auditors, appointed by the shareholders of the Company, have examined the consolidated financial statements and have expressed an opinion on the statements. Their report is included with the consolidated financial statements.

The Board of Directors of the Company has established an Audit Committee, consisting of non-management directors, to review these statements with management and the auditors. The Audit Committee has approved these statements on behalf of the Company's Board of Directors.

David A. Dyck,
Vice President, Finance & Chief Financial Officer

Larry B. Krause,
President & Chief Executive Officer

Calgary, Canada
February 13, 1998

Auditors' Report

TO THE SHAREHOLDERS OF SUMMIT RESOURCES LIMITED

We have audited the consolidated balance sheets of Summit Resources Limited as at December 31, 1997 and 1996 and the consolidated statements of operations and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants

Calgary, Canada
February 13, 1998

CONSOLIDATED BALANCE SHEETS

As at December 31 ($ thousands)	1997	1996
Assets		
Current Assets		
Accounts Receivable	$ 17,109	$ 16,386
Long-term Investment (Note 2)	17,625	507
Petroleum and Natural Gas Properties (Note 3)	295,076	283,009
	$ 329,810	$ 299,902
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Liabilities	$ 21,767	$ 14,446
Long-term Debt (Note 4)	125,098	67,833
Other Liabilities (Note 5)	8,782	8,201
Deferred Income Taxes (Note 6)	23,796	19,040
	179,443	109,520
Shareholders' Equity		
Share Capital (Note 7)	160,832	165,890
Retained Earnings (Deficit)	(10,465)	24,492
	150,367	190,382
	$ 329,810	$ 299,902

Approved by the Board of Directors

Director *Director*

Year ended December 31 ($ thousands except per share amounts)	1997	1996
Revenue		
Petroleum and Natural Gas	$ 100,853	$ 91,140
Royalties	(17,025)	(13,878)
	83,828	77,262
Expenses		
Production	22,820	17,344
General and Administrative	3,218	4,144
Interest on Long-term Debt	4,465	4,039
Capital and Production Taxes	2,508	1,729
Depletion and Depreciation	41,559	34,971
Write-down of Petroleum and Natural Gas Properties	34,500	-
Provision for Future Site Restoration Costs	948	1,477
	110,018	63,704
Earnings (Loss) before Income Taxes	(26,190)	13,558
Deferred Income Taxes (Note 6)	4,754	6,107
Net Earnings (Loss)	(30,944)	7,451
Retained Earnings at Beginning of Year	24,492	19,189
Excess of Cost over Stated Value of Common Shares Acquired (Note 7)	(1,667)	(96)
Dividends on Common Shares	(2,346)	(2,052)
Retained Earnings (Deficit) at End of Year	$ (10,465)	$ 24,492
Earnings (Loss) Per Share (Note 1(d))	$ (0.92)	$ 0.22

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Year ended December 31	1997	1996
($ thousands except per share amounts)		
Cash Provided By (Used For)		
Operating Activities		
Net Earnings (Loss)	$ (30,944)	$ 7,451
Items not Involving Cash		
Depletion and Depreciation	41,559	34,971
Write-down of Petroleum and Natural Gas Properties	34,500	-
Provision for Future Site Restoration Costs	948	1,477
Deferred Income Taxes	4,754	6,107
Cash Flow from Operations	50,817	50,006
Increase (Decrease) in Deferred Revenue (Note 5)	(113)	2,889
Decrease (Increase) in Non-Cash Working Capital	129	(1,953)
	50,833	50,942
Financing Activities		
Issue of Share Capital	70	783
Dividends on Common Shares	(2,346)	(2,052)
Increase in Long-term Debt	57,265	16,715
	54,989	15,446
Cash Generated	$ 105,822	$ 66,388
Investing Activities		
Exploration and Development of Petroleum and Natural Gas Properties	$ (64,867)	$ (43,101)
Acquisition of Petroleum and Natural Gas Properties	(74,803)	(27,572)
Disposition of Petroleum and Natural Gas Properties	51,290	3,076
Long-term Investment	(17,118)	(507)
Shares Acquired under Normal Course Issuer Bid	(6,793)	(344)
Decrease in Non-Cash Working Capital	6,469	2,060
Cash Invested	$ (105,822)	$ (66,388)
Cash Flow from Operations per Share (Note 1(d))	$ 1.51	$ 1.46

(tabular dollar amounts in $ thousands)

1. ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Summit Resources, Inc.

(b) Petroleum and Natural Gas Operations

The Company follows the full-cost method of accounting whereby all costs associated with the exploration for and development of petroleum and natural gas reserves are capitalized on a country-by-country basis, currently Canada and the United States. Such costs include land acquisition costs, geological and geophysical costs, lease rental costs on non-producing properties, costs of both productive and unproductive drilling and production equipment, net of government grants. Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a significant change in the rate of depletion.

The accumulated costs in a cost centre from which there is production, less the costs of acquisition of unproved properties, are depleted and depreciated using the composite unit of production method based on total proved reserves before royalties. Natural gas reserves and production are converted into equivalent barrels of oil based upon the estimated relative energy content.

The costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the costs subject to depletion.

The net carrying cost of the Company's petroleum and natural gas properties in a cost centre is limited to an estimated recoverable amount being the aggregate of future net revenues from proved reserves, less future capital costs and the costs of unproved properties, net of impairment allowances. The total net carrying costs of all cost centres is further limited by the above estimated recoverable amount less future site restoration costs, general and administrative costs, financing costs and income taxes. Future net revenues have been calculated using prices and costs in effect at the Company's year-end without escalation or discounting.

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(c) Future Site Restoration Costs

Estimated future site restoration costs are provided for using the unit of production method based on total proved reserves before royalties. Costs are estimated by the Company's engineers based on current regulations, costs, technology and industry standards. The annual charge is included in the calculation of net earnings and removal and site restoration expenditures are charged to the accumulated provision as incurred.

(d) Per Share Information

Net earnings (loss) and cash flow from operations per share are calculated using 33,631,000 shares (1996 - 34,244,000) being the weighted average number of shares outstanding during the year. Shares reserved for issuance (Note 7(c)) are not materially dilutive to earnings (loss) or cash flow per share.

(e) Foreign Currency Translation

Monetary assets and liabilities denominated in a foreign currency are translated at the rate of exchange in effect at year-end while non-monetary assets and liabilities are translated at historical rates of exchange. Revenues and expenses are translated at monthly average rates of exchange. Translation gains and losses are included in earnings except for unrealized gains and losses on long-term monetary items which are deferred and amortized to earnings over their remaining term.

(f) Financial Instruments

The Company periodically enters into derivative financial instruments contracts to manage exposures related to interest rates, foreign currency exchange rates and oil and natural gas prices. Amounts received or paid under interest rate swaps are recognized in interest expense, while settlement amounts on commodity and foreign currency hedge contracts are recognized in earnings as the related production revenues are recorded. At December 31, 1996 and 1997, the Company did not have any outstanding commodity hedge contracts. See Note 4 for further disclosure on outstanding contracts related to interest and foreign exchange.

(g) Measurement Uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities such as oil and gas interests and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Comparative Figures

Certain of the prior year figures have been reclassified to conform with current year's presentation.

2. LONG-TERM INVESTMENT

Through a series of transactions, the Company disposed of its 4.8 per cent direct interest in the Alliance Pipeline projects to Fort Chicago Energy Partners L.P. ("Fort Chicago") and subscribed for 3,060,870 Class A Partnership Units of Fort Chicago for an aggregate purchase price of $17.6 million. The Company holds a 4.6 per cent interest in Fort Chicago which, in turn, has an approximate 26 per cent interest in the Alliance Pipeline projects and, accordingly, the Company has used the cost method to account for its investment. The Alliance pipeline project is in a pre-construction phase with an expected in-service date of 2000.

3. PETROLEUM AND NATURAL GAS PROPERTIES

	1997	1996
Petroleum and Natural Gas Rights Including Exploration and Development Thereon	$ 422,452	$ 355,637
Production Equipment and Facilities	122,379	101,803
Other	5,903	5,200
	550,734	462,640
Accumulated Depletion and Depreciation	(255,658)	(179,631)
	$ 295,076	$ 283,009

As at December 31, 1997, petroleum and natural gas property costs include $44.1 million (1996 - $46.7 million) related to unproved properties. These costs are excluded from depletion calculations until such time as the properties are evaluated.

The net carrying costs of the Company's petroleum and natural gas properties are subject to a "Ceiling Test" as described in the accounting policies of the Company. The Ceiling Test as at December 31, 1997 was calculated using year-end prices which resulted in the Company's United States cost centre being subject to a write-down of $34.5 million.

4. LONG-TERM DEBT

	1997	1996
Bank Loan	$ 84,148	$ 26,883
Senior Notes	40,950	40,950
	$125,098	$ 67,833

Bank Loan

On December 31, 1997, the Company had a demand operating credit facility with a major Canadian chartered bank of $122.5 million (1996 - $85 million), including a $15 million bridge facility established to facilitate the Company's investment in Fort Chicago (see Note 2). The amount of the facility is based on an annual reserve determination of the value of petroleum and natural gas assets as determined by the lender. The facility is scheduled to decline by $12 million on January 1, 1998 and a further $6 million on April 1, 1998, with the bridge facility expiring on June 30, 1998.

Borrowings under the facility bear interest at the bank's prime rate or at money market rates plus a 3/4 per cent to 1 per cent stamping fee. Amounts drawn on the facility are secured by a floating charge debenture and general assignment of accounts receivable. Advances under the operating facility are due on demand with no principal repayments scheduled for the next five years, providing conditions are satisfied continuously as outlined in the loan agreement between the Company and the bank.

Senior Notes

The Senior Notes are repayable annually in five equal installments of U.S. $6 million commencing April 25, 2002 with interest payable semi-annually, in arrears, until maturity. Security on the Senior Notes ranks equally with the Company's bank loan and includes a floating charge debenture and general assignment of accounts receivable.

Interest rate swap arrangements have converted the fixed interest rate on the Senior Notes to a floating rate that fluctuates with the Canadian Bankers Acceptance Fee. Further foreign exchange swap arrangements have fixed the repayment of the principal amount of the Senior Notes at $41 million.

The Company's investment in Fort Chicago and the effect of the net loss incurred in 1997 have resulted in the restriction of future dividend payments pursuant to the Senior Notes agreement.

5. OTHER LIABILITIES

	1997	1996
Provision for Future Site Restoration	$ 6,006	$ 5,312
Deferred Revenue	2,776	2,889
	$ 8,782	$ 8,201

6. INCOME TAXES

The Company follows the tax allocation method of accounting under which the income tax provision is based on the earnings reported in the accounts. Under this method, the Company makes full provision for income taxes deferred as a result of claiming capital cost allowance and exploration and development costs in excess of the amounts provided for depletion and depreciation in the accounts.

The income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate tax rate to earnings before income taxes. The major components of these differences are as follows:

	1997	1996
Earnings (Loss) Before Income Taxes	$ (26,190)	$ 13,558
Canadian Corporate Tax Rate	44.6%	44.6%
Calculated Income Tax Provision	$ (11,681)	$ 6,047
Add (Deduct)		
Non-deductible Crown Charges	6,533	5,633
Federal Resource Allowance	(5,936)	(5,726)
Non-taxable Alberta Royalty Tax Credits	(547)	(598)
Non-deductible Portion of Depletion and Write-down	16,185	767
Other	200	(16)
Deferred Income Taxes	$ 4,754	$ 6,107

The Company has acquired certain petroleum and natural gas interests under the tax-free transfer provisions of The Income Tax Act and has transferred other income tax deductions to investors under flow-through share financing arrangements and, accordingly, as at December 31, 1997, $11.5 million (1996 - $12.5 million) of recorded costs are not deductible for income tax purposes.

7. SHARE CAPITAL

a) Authorized

Authorized share capital consists of an unlimited number of common shares without par value, five million participation shares issuable in series and an unlimited number of Class 1 preferred shares of which none have been issued.

b) Issued and Outstanding

The following is a summary of changes in share capital during the two years ended December 31, 1997:

COMMON SHARES	Number of Shares	Amount
Balance, December 31, 1995	34,270,077	$165,340
Exercise of Employee Stock Options, for Cash	18,909	79
Conversion of Employee Participation Shares	11,582	4
Issued for Cash [1]	120,550	723
Purchased and Cancelled	(51,400)	(248)
Share Issue Costs, Net of Deferred Income Tax Reduction of $8,000	–	(10)
Balance, December 31, 1996	34,369,718	$165,888
Exercise of Employee Stock Options, for Cash	12,801	68
Conversion of Employee Participation Shares	6,902	2
Purchased and Cancelled	(1,061,800)	(5,126)
Balance, December 31, 1997	33,327,621	$160,832

(1) Represents shares issued to certain employees and directors and related parties of the Company. In accordance with certain provisions of the Income Tax Act, Canadian exploration expenses related to the expenditures of the subscribed funds were transferred to the shareholders.

c) Shares Reserved For Issuance

Employee Stock Option Plans The Company has reserved 2,800,000 common shares pursuant to the Employee Incentive Stock Option Plan and 1,400,000 common shares pursuant to the Employee Share Incentive Plan - 1996. Options granted under the Plans will be for a five-year period, and available to employees, officers and directors of the Company. At December 31, 1997, a total of 2,467,419 options (1996 - 1,936,795), exercisable on/or before October 1, 2002 at prices ranging from $4.13 to $16.13 were outstanding under the Plans.

d) Normal Course Issuer Bids

In February 1997, the Company received approval from the Toronto Stock Exchange to purchase up to 1.7 million of its common shares outstanding through a Normal Course Issuer Bid. The bid commenced February 27, 1997 and will terminate on February 26, 1998. During 1997, the Company purchased for cancellation 1,061,800 shares under the bid at an average price of $6.35 per share. The difference between the price paid for the shares and the related share capital amount has been charged to retained earnings.

In October 1995, the Company received approval from the Toronto Stock Exchange to purchase up to 1.7 million of its common shares outstanding through a Normal Course Issuer Bid. The bid commenced October 31, 1995 and terminated on October 30, 1996. During 1996, the Company purchased for cancellation 51,400 shares under the bid at an average price of $6.68 per share. The difference between the price paid for the shares and the related share capital amount has been charged to retained earnings.

8. SEGMENTED INFORMATION

The Company has operations in Canada and the United States. The Company's entire operations are related to exploration, development and production of petroleum and natural gas.

1997	Canada	United States	Total
Petroleum and Natural Gas Revenue	$ 87,317	$ 13,536	$ 100,853
Expenses			
Royalties	14,928	2,097	17,025
Production	19,472	3,348	22,820
Capital and Production Taxes	1,368	1,140	2,508
Depletion and Depreciation	33,431	8,128	41,559
Write-down of Petroleum and Natural Gas Properties	–	34,500	34,500
Provision for Future Site Restoration Costs	853	95	948
Operating Profit (Loss)	$ 17,265	$ (35,772)	$ (18,507)
Corporate Expenses			
General and Administrative			3,218
Interest on Long-term Debt			4,465
Deferred Income Taxes			4,754
Net Loss			$ (30,944)
Identifiable Assets, net	$ 240,564	$ 69,577	$ 310,141
Corporate			19,669
Total Assets			$ 329,810

1996	Canada	United States	Total
Petroleum and Natural Gas Revenue	$ 85,501	$ 5,639	$ 91,140
Expenses			
Royalties	13,080	798	13,878
Production	16,357	987	17,344
Capital and Production Taxes	1,344	385	1,729
Depletion and Depreciation	32,324	2,647	34,971
Provision for Future Site Restoration Costs	1,416	61	1,477
Operating Profit	$ 20,980	$ 761	$ 21,741
Corporate Expenses			
General and Administrative			4,144
Interest on Long-term Debt			4,039
Deferred Income Taxes			6,107
Net Earnings			$ 7,451
Identifiable Assets, net	$ 246,356	$ 51,097	$ 297,453
Corporate			2,449
Total Assets			$ 299,902

TEN YEAR SUMMARY (Year ended December 31)

	1997	1996	1995	1994
Financial				
($ thousands except per share amounts)				
Petroleum and Natural Gas Revenue	100,853	91,140	76,707	81,558
Cash Flow From Operations	50,817	50,006	36,242	44,565
Per Share	1.51	1.46	1.16	1.59
Net Earnings (Loss)	(30,944)	7,451	2,745	10,807
Per Share	(0.92)	0.22	0.09	0.39
Capital Expenditures				
Exploration & Development	64,867	43,101	53,908	88,661
Acquisitions (net of dispositions)	23,513	24,496	6,322	11,781
Long-term Debt (net of working capital)	129,756	65,893	49,071	90,320
Shareholders' Equity	150,367	190,382	184,536	115,314
Operations				
Production				
Oil: Total (Mbbls)	2,243	2,089	2,127	2,175
Per Day (bbls)	6,145	5,707	5,826	5,960
Gas:Total (Bcf)	22.7	22.0	21.6	19.6
Per Day (MMcf)	62.2	60.1	59.2	53.6
Price				
Oil - $/bbl	23.89	25.49	20.97	18.40
Gas - $/Mcf	2.06	1.70	1.44	20.7
Reserves				
Crude Oil & NGLs (Mbbls)				
Proved	14,585	12,125	10,225	11,233
Probable	5,504	5,009	4,656	3,756
Total	20,089	17,134	14,881	14,989
Natural Gas (Bcf)				
Proved	147.4	156.7	158.6	176.7
Probable	37.3	46.3	60.7	61.3
Total	184.7	203.0	219.3	238.0
Wells Drilled (gross)				
Oil	45	10	19	25
Gas	20	12	20	39
Service	-	-	1	1
Dry	19	14	28	24
Total	84	36	68	89
Undeveloped Land Holdings (thousands of net acres)	592	496	431	462
Common Share Information				
Shares Traded (MM)	14.4	19.9	25.3	7.1
Value Traded ($MM)	91.1	122.9	319.5	64.0
Share Price - $/share				
High	8.00	8.88	17.63	11.25
Low	4.25	5.00	6.13	8.13
Close	4.55	6.95	7.75	8.63
Number of Shares (MM)				
Year-end Outstanding	33.3	34.4	34.3	28.3
Weighted Average Outstanding	33.6	34.2	31.2	28.0

	1993	1992	1991	1990	1989	1988
	52,289	28,873	25,294	30,666	23,019	16,541
	29,044	13,755	10,598	14,197	10,731	8,872
	1.18	0.64	0.50	0.72	0.59	0.59
	7,960	4,209	(18,704)	3,183	2,199	2,447
	0.32	0.20	(0.87)	0.16	0.12	0.16
	39,234	11,377	15,301	21,065	14,965	11,054
	39,575	10,263	(3,135)	584	17,096	605
	35,662	28,497	20,365	18,852	26,275	6,638
	103,242	51,772	47,810	66,458	48,400	44,507
	1,686	991	878	952	804	709
	4,619	2,706	2,406	2,608	2,203	1,938
	12.4	8.6	7.7	8.1	6.4	5.4
	34.1	23.5	21.2	22.2	17.5	14.7
	17.07	18.07	17.38	20.51	17.99	14.01
	1.82	1.24	1.26	1.35	1.31	1.20
	9,196	5,987	4,473	4,793	5,963	5,420
	2,010	1,342	641	487	946	636
	11,206	7,329	5,114	5,280	6,909	6,056
	140.5	75.9	73.8	96.1	86.7	60.0
	31.0	15.6	11.6	8.1	11.6	4.7
	171.5	91.5	85.4	104.2	98.3	64.7
	51	30	25	21	24	20
	22	4	8	14	8	10
	2	1	1	3	3	2
	20	15	18	27	24	18
	95	50	52	65	59	50
	305	263	300	324	246	143
	14.4	4.4	3.4	3.9	2.1	1.7
	122.5	13.1	11.7	20.1	8.4	6.0
	12.50	4.75	4.38	6.13	5.06	4.25
	4.00	2.25	3.00	3.88	3.38	2.75
	8.63	4.69	3.25	4.38	5.06	3.50
	28.0	21.4	21.4	21.5	18.7	18.2
	24.6	21.4	21.4	19.8	18.3	14.9

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Milner Fenerty, Calgary, Alberta

REGISTRAR AND TRANSFER AGENT
Montreal Trust Company
Calgary, Alberta, Toronto, Ontario

STOCK EXCHANGE LISTING
The Toronto Stock Exchange
Trading Symbol: SUI

ANNUAL INFORMATION FORM
The Company's Annual Information Form will be available in May 1998. A copy may be obtained by contacting Summit's head office.

DIRECTORS

Ernest S. Rady (1)
Chairman of the Board
American Assets, Inc., San Diego, California

Larry B. Krause (1)
President & Chief Executive Officer
Summit Resources Limited, Calgary, Alberta

R. Bruce Bailey
Professional Geologist, retired, Calgary, Alberta

Brian S. Hirsch (2)
Chartered Accountant, Winnipeg, Manitoba

Robert G. Jennings (2)
President, Jennings Capital Inc.
Calgary, Alberta

Roy E. McLellan (2)
President, Calgary Valve & Fitting Ltd.
Calgary, Alberta

Leon W. Parma
Chairman, La Jolla Capital Inc.
La Jolla, California

OFFICERS

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Chairman of the Board

Larry B. Krause
President & Chief Executive Officer

Gary W. Browne
Vice President, Land

R. Glenn Dawson
Vice President, Exploration

David A. Dyck
Vice President, Finance & Chief Financial Officer

Donald J. Nelson
Vice President, Operations

Myra Jones
Corporate Secretary

(1) member of the executive committee

(2) member of the audit committee

GLOSSARY OF ABBREVIATIONS AND TERMS

API	American Petroleum Institute
ARTC	Alberta Royalty Tax Credit
AEUB	Alberta Energy and Utilities Board
BOE	barrels of oil equivalent (1 BOE = 10 Mcf)
bbl	barrel
bbls	barrels
bbls/d	barrels per day
Bbbls	billion barrels
Bcf	billion cubic feet
m^3	cubic metres
Mbbls	thousand barrels
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
MMbbls	million barrels
MMBOE	millions of barrels of oil equivalent
MMbtu	million British thermal units
MMcf	million cubic feet
MMcf/d	million cubic feet per day
Mstb	thousand stock tank barrels
NEB	National Energy Board of Canada
NGLs	natural gas liquids
Tcf	trillion cubic feet
WTI	West Texas Intermediate

METRIC CONVERSION TABLE

to convert from:	to:	multiply by:
thousand cubic feet (Mcf)	thousand cubic metres (10^3m^3)	0.028174
barrels (bbls)	cubic metres (m^3)	0.159000
feet (ft.)	metres (m)	0.305000
miles (mi.)	kilometres (km)	1.609000
acres	hectares (ha)	0.405000

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